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|-----------|------|--------------|------|-------------|----|
| Australia | 2002 | Indonesia | 1000 | China | 01 |
| Bahrain | 1000 | Iran | 1000 | Philippines | 01 |
| Belgium | 1000 | Italy | 1000 | Portugal | 01 |
| Canada | 1000 | Japan | 1000 | Spain | 01 |
| Denmark | 1000 | South Korea | 1000 | Switzerland | 01 |
| France | 1000 | Taiwan | 1000 | USA | 01 |
| Germany | 1000 | Thailand | 1000 | UK | 01 |
| Greece | 1000 | Turkey | 1000 | USSR | 01 |
| Hong Kong | 1000 | West Germany | 1000 | Other | 01 |
| India | 1000 | Yugoslavia | 1000 | | |



FINANCIAL TIMES

World News

Conservative likely to be Brazil's new President

An unofficial exit poll gave victory to conservative candidate Fernando Collor de Mello in Brazil's presidential election, the first in 29 years.

The IBOPE institute said Collor polled 62 per cent of valid votes in Sunday's election and socialist candidate Luiz Inacio Lula da Silva 48 per cent. The official result may not be known until Tuesday, Page 2

Hong Kong survey

A survey on Hong Kong will today show that less than one-third of the colony's professional staff intend to stay there after it reverts to Chinese sovereignty in 1997, Page 18; Refugees riots, Page 4

Soviets sign EC deal

Soviet Foreign Minister Eduard Shevardnadze arrived in Brussels to sign a trade and co-operation accord with the EC and visit Nato headquarters, Page 4

Pope criticises UK

The Pope criticised Hong Kong's forced repatriation of Vietnamese boat people, saying the decision of the British colony's government was "grave", Page 18; Page 4

Defence talks stall

Progress towards a common market in arms between European members of Nato has fallen behind schedule in the initial stages, Page 4

US to boost savings

Tax incentives to lift the low personal savings in the US are set to be included in the Bush Administration's budget submission to Congress next month, Page 2

Iranian by-elections

Moderate Iranian politicians scored gains in the country's latest round of by-elections, which have been seen as the first test of popular support for the reformist President Akbar Hashemi Rafsanjani, Page 2

Korea purges past

Government and opposition leaders reached agreement in South Korea over the resolution of issues outstanding from the dictatorship of former President Chun Doo Hwan, Page 3

Assassination foiled

Egypt's Minister of the Interior, General Zaki Badr, survived an apparent assassination attempt when a car bomb exploded near his motorcade in Cairo, Page 3

Mandela supported

Anti-apartheid leaders in South Africa reaffirmed their "unwavering confidence" in Nelson Mandela, jailed leader of the African National Congress, in an attempt to counter reports of dissent in the opposition, Page 3

Research restrained

The 12 EC member states set a research budget for the next five years of Ecu5.7bn (\$6.6bn), in defiance of the Commission's plans for greatly increased spending, Page 4

US judge killed

A US Appeals Court judge, Robert Smith Vance, was killed and his wife seriously injured when a bomb exploded at their home, the FBI said, Page 3

Shooting in Panama

A US officer was shot dead by Panamanian soldiers near the headquarters of strongman General Noriega, Page 3

Sudanese hanged

A Sudanese businessman, Magdy Mahgoub, was hanged for illegally possessing foreign currency in the first reported execution under the junta which seized power in June, Page 3

Turkish concessions

Greek Orthodox Patriarchate in Istanbul opened for the first time in 48 years after a renovation project that may signal better ties between Greece and Turkey, Page 3

Brussels rejection

European Commission is today expected to reject Turkey's two-year old application for EC membership, Page 4

Sudan accuses UN

A member of Sudan's ruling military junta accused a UN-led relief programme of smuggling arms and ammunition to rebels fighting the army in southern Sudan, Page 3

Fokker catches fire

An almost new Air Europe Fokker 100 made an emergency landing at Kastrup airport, Copenhagen, after a fire, Page 3

Business Summary

World Bank calls for broader debt relief plan

THE World Bank today calls for a broadening of the international debt strategy to include debt concessions for highly indebted countries, such as Poland and Egypt, which owe considerable sums to government creditors.

Governments of industrialised countries have conceded concessional debt relief to the poorest African countries but have resisted extending this to richer, "middle-income" developing countries, Page 18; EMS Initiative, Page 4

EUROPEAN Monetary System

EMS currencies remained unchanged in the first week of the year, with the Dutch guilder, D-Mark and peseta at the top and the Italian lira, French franc and Belgian franc and the Danish krona near the bottom, Page 4

EMS December 15, 1989

| | | | |
|--------------|-----|----|----|
| GRD | 000 | 2% | 4% |
| Lin | | | |
| B Franc | | | |
| D-Mark | | | |
| Italian Lira | | | |
| Spanish Ptas | | | |
| Guilder | | | |
| D-Mark | | | |
| Peseta | | | |

ECU DIVERGENCE

| | | |
|--------------|-----|----|
| 5% | 000 | 5% |
| Lin | | |
| B Franc | | |
| D-Mark | | |
| Italian Lira | | |
| Spanish Ptas | | |
| Guilder | | |
| D-Mark | | |
| Peseta | | |

The chart shows the two convergence on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2 1/2 per cent. The lower chart shows each currency's distance from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

MACK Trucks, US truck maker

45 per cent owned by Renault of France, said it is falling to comply with some covenants on \$309m of bank loans by its financial subsidiary, Page 23

HUNGARIAN privatisation

Bunz, one of the country's largest travel agencies, has been partially sold to an international consortium of Austrian bank, Girozentrale and Bank der Oesterreichischen Sparkassen, Page 23

WINSON Industrial, one of Hong Kong's industry leaders,

announced profits after tax of HK\$165.38m (\$21.2m) during six months to end of September, only 1.8 per cent above last year because of a weak textile market, Page 23

EASTMAN Kodak said previously announced restructuring

actions will reduce net profits by about \$27m in the fourth quarter and about \$30m for the full year, Page 23

CITROEN, part of PSA, leading French car group, expects sales

to rise by 16.5 per cent to a record FF96.1bn (\$11.15bn) this year, Page 23

EUROPEAN acquisitions: cross-border acquisition activity

surged to record levels in the third quarter of 1989, according to figures published by Translink's European Deal Review, Page 23

THYSSEN, diversified West German heavy industrial group,

posted a 21 per cent advance in net profits to DM225m (\$47m) for 1988-1989, up from DM280m the previous year, Page 23

FIAT Auto will be paying

L15.5bn (\$12.3m) for its controlling share of the distribution company which markets Innocenti motor cars, but a price has not yet been fixed for its 49 per cent holding in the production company responsible for the Maserati, Page 23

CHASE Corporation, property and investment group,

reported the biggest-ever loss from a New Zealand company, a 200 per cent drop to \$40m for the year to June 30, Page 23

POLAROID, US-owned photographic manufacturer, cut

absenteeism at its Scottish plant by introducing a workplace health campaign and stronger monitoring of the reasons for absence, Page 6

BRITISH manufacturing exporters: a recovery in export

demanded is reported in the latest monthly survey of industrial trends carried out by the CBI, the employers' organisation, Page 6

Volkswagen and Ford plan new vehicle in Europe

By Kevin Done, Motor Industry Correspondent, in London

VOLKSWAGEN and Ford, two of the world's biggest car makers, are planning to join forces in Europe to develop a new vehicle to compete in what is expected to emerge as one of the fastest-growing segments of the European car market in the 1990s.

The two groups have begun a feasibility study into the joint production of a so-called multi-purpose vehicle, or people carrier, for a market sector pioneered in Europe by Renault with its Espace range.

The Japanese companies Nissan, Toyota and Mitsubishi have entered the fray with their Prairie, Spacecruser and Space Wagon ranges, and most of the leading car makers in Europe, including Mercedes-Benz, Peugeot, Fiat and General Motors (Opel/Vauxhall)

EUROPEAN VEHICLE JOINT DEVELOPMENT PROJECTS

December 1989: Ford, Volkswagen confirm feasibility study for multi-purpose vehicle.
October 1989: Renault, DAF to develop medium/heavy van range in UK and France.
September 1989: Rover, Honda begin production of Rover 200/Honda Concerto, a joint car development programme, in UK.

July 1989: Ford, Nissan agree collaboration on four wheel drive leisure utility vehicle at Nissan's Barcelona plant from 1993.
May 1989: GM, Isuzu announce plan for Isuzu-derived four wheel drive leisure utility vehicle.
January 1989: VW, Toyota begin production of Toyota one-tonne pick-up at VW's Hanover plant.
February 1988: Renault, Chrysler sign letter of intent for development of a mini leisure/utility vehicle.

It is understood that the two companies are considering combined production of about 200,000 multi-purpose vehicles a year, with production beginning in 1993/94. The output

would be shared between the two groups and sold separately under the Ford and VW badges. It appears likely that the vehicle will be developed from the floorpan (chassis platform) of the Volkswagen Passat car and estate car range.

It has not yet been decided in which country production of the vehicle would be located. Spain, Portugal, the UK and Italy are possible candidates, nor whether VW and Ford will develop a greenfield site or seek to expand existing capacity.

Both groups have begun separate collaboration projects to cover other gaps in their European product ranges, where the expected sales volumes are unlikely to be large enough to justify the European market share with the Japanese

Poland unveils harsh reforms to build free-market economy

By Christopher Bobinski in Warsaw

THE POLISH Government yesterday unveiled a programme of economic reform designed to curb galloping inflation and reduce state subsidies to enterprises, in a bid to build Eastern Europe's first free-market economy.

Mr Leszek Balcerowicz, the Finance Minister, yesterday presented 20 bills and resolutions to parliament in a budget which aims to reduce subsidies, remove price controls, liberalise foreign exchange rules and introduce real interest rates. He said: "This is a landmark change that we are making. It is unique in history. It falls to us to be pioneers. Any delay in the economic changes could be an unforgivable mistake."

The measures, which are due to be introduced on January 1, are expected to bring a 25 per cent drop in inflation. They are designed to slash inflation from the present figure of up to 50 per cent a month to five per cent by April through halving down wages, cutting subsidies and tightening credit.

An expected 400,000 workers could be unemployed within a few months. The measures also include a depreciation of the Polish zloty by two-thirds against the US dollar and, for the first time since 1982, a balanced budget.

Mr Balcerowicz described the programme as a "deep surgical operation" which would be "difficult" for the population but he told the



Balcerowicz: "This is a landmark change we are making"

Sejm, the Polish parliament's lower chamber, that the only alternative was to live with hyper-inflation.

He is on the verge of completing negotiations with the International Monetary Fund (IMF) on an adjustment programme and said that the "harsh logic of the process of change" towards a market economy, and away from what he calls the influence of "19th-century doctrines," demanded that parliament accept his austerity programme.

The programme is expected to get through parliament in the next two weeks, although yesterday Communist Party deputies made it clear they intended to make political capital out of the hardship which it will entail.

ON OTHER PAGES

The thorns that crown the struggle, Page 16

E Berlin and Bonn call for caution on unification, Page 18

Sakharov honoured by tens of thousands in Moscow, Page 18

World Bank Debt urges relief strategy, Page 18; analysis, Page 4

Mr Lech Walesa, the Solidarity leader, has come out grudgingly in favour of the plans, although he has urged the Government to speed up the privatisation of industry, which for the moment has taken second place to the fight against inflation.

The programme is already meeting sharper criticism elsewhere. Farmers' deputies in parliament are openly criticising the Government for its failure to protect the countryside from the effects of the policies and a stormy debate on agriculture is expected today.

A Rural Solidarity congress at the weekend voted out Mr Jozef Sliwa, a deputy speaker of the Senate. They elected Mr Gabriel Janowski in his place, who is expected to lead the union on a wave of criticism of

the Government's policies. Outlays on the armed forces will also be reduced next year, cutting manpower by 43,000 down to 200,000. Internal security will also fall in real terms.

It was also announced at the weekend that Poland expects to run a \$1.2bn hard currency trade and services deficit next year compared to a deficit of \$200m in 1989.

The country's hard currency debt is to rise by \$3.6bn to \$43.2bn. The Poles are expected to reschedule \$5bn worth of capital and interest payments falling due to Western creditors next year.

Agreement with the IMF should open the way for an immediate \$215m bridging loan from the Bank of International Settlements in Basle, to be repaid when standby credits worth \$75m become available.

Mr Balcerowicz yesterday also stressed his hope that a \$1bn stabilisation loan from the West will become available soon - "in accordance with the many declarations already made by the West."

This statement reflects concern by the Poles that negotiations on the loan are dragging on while the funds are needed by Poland at the start of the year.

"Since the changes in East Germany and elsewhere in the Bloc, we've noted a slackening of enthusiasm in the West on this issue," one official said yesterday.

EC and Efta go back to drawing board, Page 4

Lyonnais des Eaux expected to announce stake in UK water

By Ray Bashford in London

LYONNAISE des Eaux, the French water supplier, is expected to announce today that it has acquired between 7 per cent and 10 per cent of the water companies in the Anglian Water, one of the water companies recently privatised by the British Government.

The French company is also likely to disclose the purchase of significant stakes in at least two of the other nine water companies which began trading as private companies on the stock market last Tuesday.

French companies have been active in the UK water industry for the past two years while the privatisation plan has been taking shape. However, the purchase of these stakes would be the most significant move they have made so far.

Lyonnais des Eaux yesterday declined to comment on reports about the stakes but is expected to comment today after the release of a brief statement.

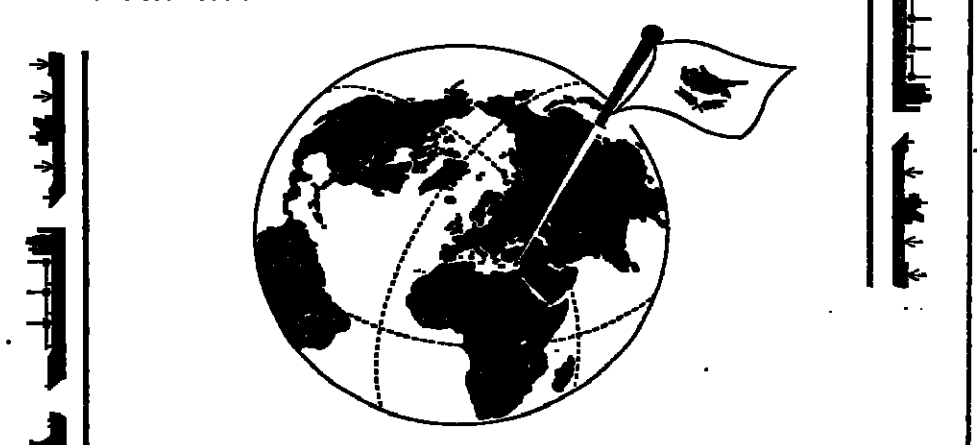
Générale des Eaux and SAUR are two other French companies which have been active in the industry and are believed to have shares.

Lyonnais des Eaux already owns four of the 29 statutory water companies, including two in the Anglian region in the east of the country - East Anglian and Essex. Its control of Newcastle and Gateshead and Sunderland in the north of England has led several analysts to conclude that the French company may see a geographic advantage in taking a large minority holding in Northumbrian, another northern company, which was actively traded after listing.

Trading was heavy in the shares of all the companies last week and they closed on Friday with hefty premiums. However, exceptional activity in several groups including Anglian, South West, Northumbrian and Wessex has led to speculation that at least one group was attempting to build strategic holdings in some companies as a launching pad for a possible takeover offer.

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Mr Makoto Utsumi, Japan's Vice Minister of Finance for International Affairs, believes some tension between his ministry and the US Treasury may be a good thing, being "necessary in order to bring about progress." Page 40

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OVERSEAS NEWS

US budget likely to lift personal saving

By Peter Riddell, US Editor, in Washington

TAX incentives to lift the low personal savings in the US are set to be included in the Bush administration's budget submission to Congress next month. The Treasury has been working for several months on proposals to increase the US savings rate, whose low level is widely seen as central to the country's underlying economic problems and its inadequate investment levels. As a first stage, Mr Nicholas Brady, Treasury Secretary, last week presented to the president's Economic Policy Council plans for a new Family Savings Account, under which savers could deposit up to \$5,000 a year and be exempt from taxes on interest and dividends, if the money were left there for 10 years. Final decisions have yet to be taken

on details, and other variants being studied involve a lower level of minimum deposit and a sliding scale of early withdrawal penalties. This plan has the short-term fiscal advantage that the loss of tax revenue would build up slowly over the 10 years of the deposit, rather than come immediately with the deduction of annual contributions to individual retirement accounts. The plan is intended to give the administration the political initiative in the growing debate in Washington about how to enhance savings. The Family Savings Account will be presented, with revived proposals to reduce capital gains tax, as the first instalment of a broader strategy to review US savings.

As a second stage, the Treasury intends to produce a study in the spring on ending the current double taxation of dividends (first by corporations on their profits, and then by individuals on their income). This is to encourage companies to rely more on equity than debt. Any solution is more likely to involve giving businesses credit for the taxes which shareholders pay (or a parallel change for individuals) than changing the general tax relief on interest payments on debt. However, the Democratic-controlled Congress has proposals of its own to encourage savings. In particular, Senator Lloyd Bentsen, chairman of the Senate Finance Committee, has said he favours legislation in the next Congressional session to extend tax relief on

individual retirement accounts for families earning more than \$50,000 a year, while allowing the accounts to be used for the first time for house purchases and education. Some Democrats are sceptical about the administration plan which, they suggest, will mainly benefit the existing well-off and encourage switching of savings from existing accounts to take advantage of the tax incentives. The debate over these proposals is likely to become linked with a renewed argument over cutting capital gains tax, which was blocked last month in the Senate by Democratic leaders but will be included in the January 23 budget. The current betting is that some form of gains tax reduction will be approved next year.

Collor given slight edge as Brazil picks president

By Ivo Dawson in Rio de Janeiro

THE three largest opinion polling organisations gave the cent-right candidate, Mr Fernando Collor de Mello, a wafer-thin advantage over his socialist rival, Mr Luis Inácio Lula da Silva, yesterday as some 82m voters went to the polls to choose between the two sharply contrasted Brazilian presidential candidates. But pollsters admitted that the margins - ranging from three to 0.5 percentage - were so narrow that the country's first direct ballot for the presidency since 1960 was just about too close to call. As formal campaigning ended and long-winding crowds took to the streets, both candidates were confidently claiming victory. The electoral authorities believe, however, a clear result could take as long as four days to emerge.

As the Workers' Party (PT) candidate is universally known, told foreign journalists, in an eve-of-poll news conference in São Paulo, that he was convinced he would win by three or four percentage points. "It is a peaceful revolution with strong support, within the US and the rest of the world," he said. Mr Collor, an exponent of liberal economic policies, avoided the press but was

reported to be convinced of victory, after what was widely considered a strong performance in the last television debate between the candidates. The year-long campaign will surrender office to his successor in March, told television viewers in a national broadcast on Saturday night that he had now completed his mission by bringing the world's third largest electorate peacefully to the ballot box. The winning candidate will have to tackle inflation near 50 per cent a month and rising public unrest at the sharp disparities in wealth in what is one of the world's most inequitable societies. In São Paulo police were laying siege yesterday to a suburban house where an international gang of kidnapers was holding one of Brazil's best-known businessmen at gunpoint. Mr Abílio Diniz, a multi-millionaire and effective head of the 548-supermarket Pão de Açúcar group, was said to have agreed to refrain from reporting so as to help investigations. Despite the agreement, word of the kidnapping has spread rapidly, adding to the growing sense of unease among Brazil's business community already somewhat unnerved by Lula's rise in the opinion polls. Police have insisted that the kidnapping, which appears to include Chileans and Brazilians, is a criminal organisation with no political motives.



Collor: Strong on television

reached its climax with Brazil's cities and towns echoing to a cacophony of chanting crowds and honking car horns as each candidate's supporters attempted to drown out their rivals. The election - the first direct vote for the Brazilian presidency with universal suffrage - formally ends Brazil's long transition from military dictatorship to full civilian democracy. President José Sarney, who

American officer shot dead by Panamanian troops

A US officer was shot dead by Panamanian soldiers on Saturday night near the headquarters of General Manuel Noriega, the local strongman, after reports from Panama City. A US spokesman said a curfew was imposed on US personnel in the country after the incident, the first for many years in which a US soldier was killed by Panamanian forces. There seemed to be no change in US forces' alert status. There was no immediate

comment from the Panamanian Defence Forces (PDF) or the US embassy. Panama City remained calm. The Southern Command, US army headquarters for the region, said the dead officer was one of four US military personnel who had lost their way in a car while off duty and in civilian clothes. They found themselves close to the PDF headquarters and encountered five or six uniformed PDF soldiers and about 40 civilians. The four fled after uniformed PDF soldiers tried to pull them

from their car, it added. PDF troops then opened fire. The Command said one of the officers died after arrival at an army hospital. The other three were not injured. While harassment of US military and civilian personnel has subsided in recent months, the spokesman said there had been 800 incidents of harassment since February 1988. The Southern Command television station said on Saturday that an 11 pm to 5 am curfew had been imposed for all US people in Panama.

The network said off-base activities were prohibited and Americans already outside the base should avoid public areas. The shooting happened a day after Panama's National Assembly had unanimously declared the country in a state of war with the US and granted Gen Noriega wide powers which formalised his long-standing de facto rule. Tension has been high between the US and Panama since rebel troops and junior officers on October 3 failed in a coup attempt against the general, whom Washington wants removed from power. He has been indicted in the US on drug trafficking charges, which he denies.

During the attempt, US troops based in Panama blocked roads to the PDF headquarters. US officials denied any role in the affair but said they knew in advance a coup was being planned. After the coup attempt, President George Bush was criticised by opponents for not seizing an opportunity to force out Gen Noriega.

HARRISONS & CROSFIELD plc

NOTICE OF A MEETING OF the holders of the £75,000,000 7½ per cent. Subordinated Convertible Bonds Due 2003 (the "Bondholders") and the "Bonds" respectively of Harrisons & Crosfield plc. In accordance with the terms and conditions of the Trust Deed dated 14th July 1988 constituting the Bonds, notice is hereby given that a meeting of Bondholders will be held at the Registered Office of Harrisons & Crosfield plc, 20 St. Dunstan's Hill, London EC3R 8LQ on Tuesday 9th January 1990 at 3.00 p.m. for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution:-

EXTRAORDINARY RESOLUTION THAT this Meeting of the Holders of the £75,000,000 7½ per cent. Subordinated Convertible Bonds Due 2003 of Harrisons & Crosfield plc (the "Company") constituted by a Trust Deed dated 14th July 1988 (the "Trust Deed") executed between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee") hereby:-

- (i) generally and unconditionally authorises and gives consent to the Company at any time and from time to time up to 8th January 1994 to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of its Ordinary Shares of 25p each upon and subject to the condition that the price at which Ordinary Shares may be purchased shall not be less than 25p per Ordinary Share, exclusive of expenses PROVIDED that the Company may before the expiry of this authority and consent make an offer or agreement which would or might require its Ordinary Shares to be so purchased after such expiry as if the authority and consent hereby given had not expired; and (ii) authorises the Company and the Trustee to concur in, execute or do any document, act or thing necessary to give effect to this Extraordinary Resolution.

By order of the Board Christopher Gill, Secretary Dated 18th December 1989 Principal Paying and Conversion Agent:- The Chase Manhattan Bank, N.A., Woolgate House, Coleman Street, London EC2P 2HD Paying and Conversion Agents:- Chase Manhattan Bank (Swiss) 63 Rue du Rhone Ch-1204 Geneva, Switzerland Banque Bruxelles Lambert S.A. 24 Avenue Marnix B-1050 Brussels, Belgium CEDEL S.A. 67 Boulevard Grand Duchesse Charlotte, Luxembourg-Ville, Luxembourg. EURO-CLEAR Morgan Guaranty Trust Company of New York, Euro-clear Operations Centre, 1000, Rue de la Regence 4, B-1040 Brussels, Belgium.

- 1. A Bondholder wishing to attend and vote in person at the meeting of Bondholders must produce at that meeting the Bonds in respect of which he is the Bondholder or a valid voting certificate issued by a Paying and Conversion Agent at the Offices specified above. 2. A Bondholder not wishing to attend and vote at the meeting in person may either deliver his Bonds or a voting certificate to the person whom he wishes to attend on his behalf or cause to be issued by a Paying and Conversion Agent a block voting instruction authorising the proxy named in the said block voting instruction (who need not be a Bondholder) to vote in accordance with his instructions. For the purpose of obtaining a voting certificate or appointing a proxy under a block voting instruction the Bondholder must have deposited his Bonds with the Paying and Conversion Agent issuing the said voting certificate or causing to be issued the said block voting instruction no later than 3.00 p.m. (London time) on 5th January 1990 (or in the case of an adjourned meeting, 48 hours before the time and date of such adjourned meeting) provided that in cases where the Bonds are held by CEDEL S.A. or Euro-clear a Bondholder may (instead of depositing his Bonds with such Paying and Conversion Agent) direct that his Bonds be blocked in accordance with the relevant procedures. Bonds so deposited or blocked will not be released until the first to occur of:- (i) the conclusion of the Meeting or any adjournment thereof (whichever is the later); and (ii) if a voting certificate has been issued, the surrender of the voting certificate to the Paying and Conversion Agent who issued the same; or (iii) if a block voting instruction has been issued, the surrender to the Paying and Conversion Agent who caused the same to be issued, not less than 48 hours before the time for which such meeting or adjournment thereof is convened, of the receipt for each such deposited Bond which is to be released, and the giving of notice by the Paying and Conversion Agent to the Company of the necessary amendment to the block voting instruction. 3. The quorum required at the meeting of Bondholders for the purpose of passing the proposed Extraordinary Resolution shall be two or more persons present holding bonds or voting certificates or being proxies and holding or representing in aggregate a clear majority in principal amount of the Bonds then outstanding. If within half an hour from the time appointed for the meeting, a quorum is not present, the meeting shall stand adjourned for such period, not being less than 28 days nor more than 42 days, and to such place, as may be appointed by the Chairman of the meeting. At such adjourned meeting, two or more persons present in person holding Bonds or voting certificates or being proxies (whatever the principal amount of the Bonds so held or represented) shall form a quorum and shall have power to pass any resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had a quorum been present at such meeting. 4. Every question submitted to a meeting shall be decided in the first instance by a show of hands unless a poll is duly demanded by the Chairman or by one or more persons holding Bonds or voting certificates or being proxies and being or representing in aggregate the holders of not less than one-fifth of the principal amount of the Bonds then outstanding. In the case of an equality of votes the Chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a Bondholder or as a holder of a voting certificate or as a proxy. 5. On a show of hands every person who is present in person and who produces a Bond or a voting certificate or is a proxy shall have one vote and on a poll every person who is so present shall have one vote in respect of each £1,000 principal amount of Bonds so produced or represented by the voting certificate so produced or in respect of which he is a proxy. On a show of hands a declaration by the Chairman that a resolution has been carried or lost shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. 6. To be passed the Extraordinary Resolution requires a majority consisting of not less than three quarters of the votes cast thereon at the meeting. If passed, an Extraordinary Resolution shall be binding upon all the Bondholders (whether present or not present at such meeting) and all holders of the interest coupons relating to the Bonds.

Copies of the Trust Deed, including the Terms and Conditions of the Bonds, referred to in the Extraordinary Resolution of Bondholders set out above will be available for inspection by Bondholders at the specified Offices of the Principal Paying and Conversion Agent and the Paying and Conversion Agents set out above during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including the date of the meeting. In accordance with normal practice, the Trustee expresses no opinion on the merits of the Extraordinary Resolution but has authorised it to be stated that it has no objection to the Extraordinary Resolution being submitted to Bondholders for their consideration. The Company has no immediate plans to purchase its own shares, but the Board would like to be able to act quickly if circumstances arose in which they considered such purchases to be desirable. It is not envisaged that the Company would make any such purchases unless their effect would be to increase earnings per share and would be for the benefit of the Company generally. The current requirements of The Stock Exchange specify that purchases of Ordinary Shares made through The Stock Exchange within a period of twelve months are to be kept below the limit of 15 per cent of the issued ordinary share capital of the Company and that purchases exceeding 5% above the average of the middle market quotations for an Ordinary Share taken from The Stock Exchange Daily Official List for the ten business days before each purchase. The current requirements of The Stock Exchange also prevent the Company from purchasing

Bush sanguine on Peking visit

By Peter Riddell in Washington

PRESIDENT George Bush believes that the controversial visit of two senior US officials to Peking a week ago will have "positive results", though these may take time to appear. The visit by Mr Brent Scowcroft, the president's National Security Adviser, and Mr Lawrence Eagleburger, Deputy Secretary of State, has been widely attacked in the US, both before and after the visit, as premature only six months after the Tiananmen Square massacre and as sending the wrong signal to Soviet leaders about the suppression of dissent. However, having met President François Mitterrand of France on Saturday, on the Central Island of St Martin, Mr Bush said he had "no second thoughts at all" about

ordering the visit. He hoped it would have "positive results" and "we've already seen a couple of indications of that." He seemed to be referring to Chinese promises not to supply ballistic missiles in the Middle East. He added: "But I think, knowing China, time is required. I think we've made the right step and only time will tell how the leaders in China view the mission." US administration officials hope for some more tangible movement from the Chinese authorities in the coming weeks, particularly since legislation to strengthen sanctions against China is likely to be revived, with strong support, when the US Congress returns five weeks hence. There have been uncon-

firmed reports of discussions about allowing Fan Lichang, prominent Chinese dissident and scientist, to leave China. He has been in the US embassy in Peking since he sought refuge there last June. This remains a source of tension between the two governments. Presidents Bush and Mitterrand were broadly agreed that it was vital to support the current changes in eastern Europe. The French president welcomed the US recent proposals for strengthening US links with various European institutions. Mr Mitterrand brushed aside suggestions that France had displaced Britain in a special relationship with the US. "We're not in a sentimental competition."

US troops in Europe 'to be halved'

SENIOR US Defence Department officials are recommending that the number of US troops in Europe eventually be reduced by half, if Soviet troop reductions continue for several years, a published report says, AP reports from Washington.

Reduction of the current force of 308,000 US air and ground forces to 150,000 would retain a "political minimum" to maintain a military presence there, Defence officials told The Washington Post, according to a story published in the newspaper yesterday. That reduced level would enable the US to meet global responsibilities in an era of deficit reduction at home, said the sources, who say they have presented their plan to Mr Dick Cheney, Defence Secretary. Knowledgeable sources said the proposals recommend the US, for the first time, to consider reducing its naval commitment to defend North American sea lanes in order to reinforce Europe from America in wartime. Planners also have concluded that the Soviet Union no longer can count on the armies of its Eastern European allies to support it in any hostilities, according to sources. One policy paper assessing Germany's future role in Europe predicted that some

form of renitiation will occur "within a few years." "We will be likely to face, by the next century, a Europe shaped as much by German economic influence and military potential as by Russian military presence," the paper concluded. Meetings this week will cover options for reshaping Pacific Basin forces and strategic nuclear forces. For next month, Mr Cheney has requested a senior review of the Strategic Defence Initiative and space programmes, weapons acquisition and the US defence-related industrial base.

Pinochet smiles on Chile's return to democratic ways

Barbara Durr analyses an electoral aftermath

THE CHILEAN return to democracy looks to be already in its stride. After the country's first general election for more than 16 years, President Augusto Pinochet welcomed the return of democratic ways and offered full co-operation from the outgoing military regime with the newly elected authorities. President-elect Patricio Aylwin, in turn, said he considered the general's offer very positive. The two men have not met since Mr Aylwin's electoral triumph on Thursday but it is widely believed that, in the period between now and March 11 when Mr Aylwin will be inaugurated president, they will have discussions. An accord on civilian-military relations is widely seen as a top political priority. Mr Aylwin will be seeking Gen Pinochet's departure from the powerful post of army commander-in-chief, which the constitution allows the old general to occupy until 1997. However, Gen Pinochet is expected to hold on to the job until assured that military officers will not be tried for human rights violations during his regime, which began with a military coup in 1973. The first crucial step toward an overall accord will be the handing of a proposed law on the armed forces, which is hanging fire with the military junta, the outgoing regime's legislative branch. According to Mr Aylwin's political advisors, the law would virtually create a state within a state, much diminishing civilian control of the military.

General Fernando Matthei, the Air Force Commander, has said that he has problems with the proposed law, so it might become a long-running chip in negotiations on the human rights issue. Mr Aylwin will also be pressing for an accord between main labour unions and business groups. With such an accord, the new government would hope to stem pressure for quick wage rises while establishing a framework to loosen the military regime's restrictive labour laws. On both these issues, Mr Aylwin is likely to seek support from the moderate conservative party, National Renovation, which is now Chile's second most important political party after the president-elect's Christian Democrats.

Mr Andrés Allamand, National Renovation's general secretary, has signalled his party's willingness to work with Mr Aylwin. If the latter, a political moderate, fails to secure his accord by March 11, he will have resorted to the new Congress, where he would be able to count on a heavily centrist composition. In the Senate, the opposition alliance took 22 seats, 13 of these for Christian Democrats, National Renovation won six and another eight went to independents associated with it. The more right-wing Union of Democratic Independents (UDI) party won two seats. Top left-wing party leaders, such as the social democrat Mr Ricardo Lagos, president of the Party for Democracy, and the socialist Mr Luis Maiz, presi-

dent of the Christian Left, failed to win congressional seats. In the 120-member House of Representatives, the alliance took 89 seats, 67 for Christian Democrats, and the right-wing electoral group took 48, including 29 for National Renovation. Only two left-wingers were elected, plus one independent. The elections showed a marked rejection of extreme parties of right and left. In that these failed to enter Congress, the constitution now removes their status as legally registered moderates. The moderate tone of the new Congress heightened business on Friday to the extent of a 5.3 per cent rise in the Santiago stock market and a three-peso fall in the black market dollar rate.

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OVERSEAS NEWS

Activists reiterate support for Mandela

By Patti Waldmeir
In Johannesburg

ANTI-APARTHEID leaders in South Africa have reaffirmed their "unwavering confidence" in Mr Nelson Mandela, the jailed leader of the African National Congress, in an attempt to counter reports of dissent within opposition ranks over Mr Mandela's recent meetings with the government.

Leaders of the Mass Democratic Movement (MDM), the country's largest anti-apartheid coalition, said on Saturday they had full confidence in Mr Mandela's political leadership, and their support for him was unshakable.

Their statement followed Mr Mandela's meeting last week with Mr F.W. de Klerk, the South African President, which provoked concern in the ranks of the MDM. Some activists said they feared Mr Mandela was already engaged in negotiations with the government, although the MDM continued to rule out talks at this stage.

The statement said Mr Mandela's key role was to "facilitate" negotiations between the ANC and Pretoria, contradicting earlier statements from MDM leaders who said the movement had not been told of last week's meeting.

The subject of negotiations was also addressed at the weekend by the leaders of two rival black groupings, Chief Mangosuthu Buthe of the Zulu political movement Inkatha, and Mr Japha Masemola of the Pan Africanist Congress (PAC). Mr Masemola argued that negotiations could only begin when the government was "on its knees".

Moderates gain in Iran elections

MODERATE Iranian politicians have scored gains in the country's latest round of by-elections, which have been seen as the first test of the reformist movement led by the President Ali Akbar Hashemi Rafsanjani in his campaign to overhaul the economy, Reuter reports from Niocosa.

To the delight of the radicals, the cleric and Westerner Ali Akbar Mohtashemi was returned to parliament for a Tehran seat, winning a valuable platform for his militant stance on both foreign and domestic issues.

But his victory appeared to be an isolated one. The election results suggested support was wanting for the radical camp opposed to the market economy pursued by Mr Rafsanjani's government.

Mohammad Movahhedi Karzani, a moderate, received the highest number of votes to win one of the Tehran constituencies, while a former agriculture minister, also an ally of Mr Rafsanjani, triumphed in the nearby city of Karaj.

Hanging for currency offence

Sudan hanged Magdy Mahgoub, a member of a business and banking family, yesterday for breaking foreign currency regulations, despite appeals for clemency from the US, Reuter reports from Khartoum.

Military leader General Omar Hassan al-Bashir last week ratified death sentences on Mahgoub, convicted by a military court of illegal possession of foreign currency, and Said Ahmed Geballah, an Egyptian convicted of possessing heroin.

Gysi seeks ties with Israel

East Germany's new Communist Party chief Gregor Gysi recommended yesterday that diplomatic relations should be established with Israel for the first time, Reuter reports from East Berlin.

Mr Gysi's comments, in a speech to an emergency Communist congress, followed a statement by Prime Minister Hans Modrow to the Israeli newspaper Haaretz that the East German government had already asked to establish ties. Israel said it had not received the request but would take it seriously if East Germany shared responsibility for the Nazis' killing of six Jews.

Spanish credit

Spain has granted Morocco a long-term credit of Pta2.4bn (€13m), the official Moroccan news agency MAP said yesterday. Reuter reports from Rabat.

It said the credit, which carries low interest rates, was approved on Friday by the Spanish government.

S. Koreans agree moves to resolve Chun legacy

By Maggie Ford in Seoul

GOVERNMENT and opposition leaders have reached agreement in South Korea over the resolution of issues outstanding from the dictatorial regime of former President Chun Doo Hwan.

At a seven-hour meeting, President Roh Tae Woo and the three opposition leaders thrashed out an 11-point plan which is expected to settle the dispute by the end of the year.

The agreement represents a big breakthrough in South Korea, where democratic development has been held back by the difficulty of settling the issues of the past.

The Government has agreed to almost all the demands of the opposition leaders, opening the way for a big reshuffle of the ruling party and cabinet by the end of the year, to usher in what the President has described as a new democratic decade.

Under the plan, former President Chun, at present in exile at a remote military base, is expected to testify to the National Assembly about the circumstances of his military coup in 1979 and other alleged misdeeds.

Mr Chung Ho Young, the general held responsible for the 1980 military killing of at least 200 people in the provincial city of Kwangju, is to be asked to resign from his parliamentary seat by President Roh. Mr Chung has indicated that he will agree to any such request.

The National Assembly is to file a perjury charge against Mr Lee Won Jo, widely regarded as the main instigator of corruption and illegal fund

gathering under the Chun regime.

Another former general, Mr Lee Hui Sung, now president of a public housing corporation, is also expected to resign in connection with the Kwangju incident.

Special laws will be enacted to restore honour and pay compensation to the Kwangju victims, who at the time were branded as communists.

The political leaders also agreed to a comprehensive set of proposals to deal with other national problems.

A special session of the National Assembly is to be held in February to revise or repeal the National Security Law, under which many people have been jailed for having contact with communist North Korea.

The Government is to free more political prisoners in a Christmas amnesty and opposition leaders agreed to approve the budget, delayed for several months pending a political settlement.

Government and opposition parties have also agreed to work together to encourage dialogue between management and labour to end destructive strikes and to solve other social problems, such as the housing crisis.

Most South Koreans will wait to hear Mr Chun's testimony before deciding that the misdeeds of his regime have finally been properly accounted for.

But a big hurdle in the country's transition to democracy now seems to have been cleared.



President Yang Shangkun waves goodbye as he leaves China

Yang on Mideast tour

YANG Shangkun, China's hardline president, whose political star has risen during the crackdown on dissent since June, left yesterday for a tour of four Middle Eastern countries, Reuter reports from Peking.

Yang's itinerary takes him to Egypt, the United Arab Emirates, Kuwait and Oman - all states whose ties with Peking have been undisturbed by China's political turmoil.

Middle Eastern diplomats described the tour as intended to reaffirm Chinese ties to the region, where Peking has few direct interests but is eager for greater economic links, especially with Kuwait and other oil-rich states.

The trip also serves as an uncontroversial diplomatic excursion at a time when China's relations with the outside world are at their worst for several years.

Peking is anxious to attract investment from Kuwait - one of the world's biggest overseas investors - and other oil states as Western business interest in China plummets because of fears of political instability.

Yang, believed to have played a key role in ordering the army onslaught on Peking in June which killed thousands of civilian protesters, is widely tipped as a successor to Deng Xiaoping as the country's most influential leader.

Action over anti-Sikh rioters proposed in Punjab plan

By K.K.Sharma in New Delhi

THE first step towards settling the Punjab issue was taken yesterday when an all-party conference decided the Indian Government should take action against those guilty of instigating the killing of Sikhs in riots after Mrs Indira Gandhi's assassination in 1984.

Sikhs in Punjab and elsewhere are particularly bitter over the failure to prosecute those guilty of killing nearly 3,000 Sikhs in Delhi and northern India in 1984. They blame the Congress Party, led by Mr Rajiv Gandhi, for failing to give them justice even though commissions of inquiry have identified the guilty.

The all-party conference was called by Mr V.P.Singh, India's new Prime Minister, who has given priority to finding a solution to the Punjab issue. Militant Sikhs are seeking an inde-

pendent nation, Khalistan.

Although the move to take action against those guilty of instigating the 1984 riots is certain to be welcomed by Sikhs, the religious community has many more demands and grievances which they want redressed before associating themselves with efforts to find a solution to the Punjab issue.

Yesterday's conference was boycotted by Sikhs, including the militant faction of their main political party led by Mr Simranjit Singh Mann, a former police officer freed a fortnight ago, after spending five years in jail, when he and seven other radicals were elected to Parliament recently. The Mann faction also wants a general amnesty for imprisoned Sikhs, action against police officials they accuse of repressive measures in Punjab,

a repeal of "draconian" laws and withdrawal of paramilitary forces from the state.

A statement adopted by yesterday's conference spoke of the "unanimous determination of the nation that the agony of Punjab which is, in fact, the anguish of the entire country, must be ended expeditiously".

The conference sought a settlement within a framework of the Indian constitution, thereby rejecting the militants' demand for independence. It is now expected that the Government will establish contacts with Mr Mann and other Sikh leaders to find a solution to the Punjab issue.

Although Congress Party leaders attended the conference, they dissociated themselves from the "consensus statement" because they were not a party to drafting it.

Egyptian minister survives attack

By Max Rodenbeck in Cairo

EGYPT'S tough and controversial Minister of the Interior, General Zaki Badr, survived an apparent assassination attempt when a car bomb exploded near his motorcade in Cairo on Saturday.

The primitive explosive device, in a Suzuki pick-up truck parked under a flyover, went off moments before the minister drove past. The blast caused little damage, and police caught a man fleeing the scene through a nearby cemetery. Identified as a 24-year-old medical student, Sherif Mahmoud, the man suffered severe burn wounds in the face, indicating that the effort was amateur.

Egypt's state security prosecutor launched an investigation yesterday to determine

who planned the attack. Security officials in Cairo openly speculate that Moslem extremists were responsible.

Gen Badr has gained a reputation for ruthlessness in the campaign he has waged against fundamentalist dissent since he took office in May 1986. Making use of emergency laws passed in the wake of President Anwar Sadat's assassination in 1981, security forces have detained thousands of Islamic militants. Egyptian police have drawn criticism for firing tear gas into mosques and allegedly torturing prisoners.

Although the Islamic trend has continued to make headway in professional and student organisations, activity by the militant fringe appeared to

have declined in recent months. Last week, however, police arrested 325 protesters during unrest in the provincial city of Assut, in which 40 people were injured.

Saturday's botched assassination was the most serious attack on an Egyptian official since 1967, when two former interior ministers survived attempts on their lives by Jihad extremists. The ministers had been accused of turning a blind eye to the use of torture. The 61-year-old Gen Badr, who was driving to his morning tennis session when the bomb went off, appeared to be unfazed by the experience. Cairo newspapers yesterday pictured President Mubarak congratulating the smiling minister on his survival.

Tensions high as gang fights break out in HK camp

By John Elliott in Hong Kong

MORE than 1,000 Vietnamese boat people were last night involved in gang battles in Hong Kong's high-security Whitehead detention centre, at a time when tensions are running high throughout the colony's boat people camps.

Battles break out frequently between different factions of boat people, but they are causing more concern following the mandatory return to Vietnam last Tuesday of 51 boat people, the start of Hong Kong's new and widely criticised hard-line policy.

Security officials were threatened when they tried to stop the fighting and searched the camp for weapons.

Meanwhile, government spokesmen last night firmly denied allegations that some of the 51 had been threatened by security staff last Tuesday morning and had been carried aboard the aircraft that flew them back to Hanoi.

The allegations were made in a BBC interview in the Vietnamese port city of Haiphong. The allegations are important because Hanoi has stressed that it will refuse to accept any deported boat people who are physically forced

on to aircraft bound for Vietnam.

At the Vatican yesterday, the Pope criticised Hong Kong's forced repatriation, calling the decision of the British colony's Government grave, Reuter adds.

Speaking at his weekly blessing in St Peter's Square, the Pope, who rarely criticises government actions, said he was very concerned about the fate of thousands of Vietnamese refugees in Hong Kong.

"Our heart cannot remain insensitive and indifferent before such grave decisions which so dramatically affect the lives of many persons, including women and children," he said.

The Pontiff, who visited a refugee camp in Thailand in 1985, prayed that God would "enlighten the minds of those who control the fate of peoples." He said solutions to the complex refugee problem had to be "more respectful of the dignity of man."

He called on the international community to become more aware of its responsibility to solve what he called "such a grave humanitarian problem."

| WORLD ECONOMIC INDICATORS | | | | |
|---------------------------|----------|----------|----------|----------|
| UNEMPLOYMENT | | | | |
| | Nov '89 | Oct '89 | Sept '89 | Nov '88 |
| W Germany 000's | 2,026 | 2,004 | 2,001 | 2,187 |
| % | 7.9 | 7.8 | 7.8 | 8.5 |
| US 000's | 6,729 | 6,561 | 6,594 | 6,563 |
| % | 5.4 | 5.3 | 5.3 | 5.4 |
| UK 000's | 1,612 | 1,638 | 1,708 | 2,067 |
| % | 6.0 | 6.2 | 6.3 | 7.3 |
| Belgium 000's | 347 | 350 | 353 | 374 |
| % | 9.9 | 10.0 | 10.2 | 10.7 |
| Japan | Oct '89 | Sept '89 | Aug '89 | Oct '88 |
| % | 1,430 | 1,400 | 1,410 | 1,520 |
| France 000's | 2,3 | 2.2 | 2.3 | 2.4 |
| % | 2,599 | 2,598 | 2,517 | 2,654 |
| Italy 000's | 11.0 | 11.0 | 10.7 | 11.3 |
| % | 3,968 | 3,892 | 3,878 | 3,901 |
| % | 16.4 | 16.4 | 16.4 | 16.5 |
| Netherlands 000's | Sept '89 | Aug '89 | July '89 | Sept '88 |
| % | 381 | 394 | 392 | 417 |
| % | 6.5 | 6.8 | 6.7 | 7.1 |

Source: National data



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OVERSEAS NEWS

ASSESSMENT OF WORLD DEBT, 1989-90

Bank praises performance record of Brady Initiative

By Stephen Fidler, Euromarkets Correspondent

IT SHOULD come as no surprise that the World Bank, in its annual assessment of the international debt scene, World Debt Tables 1989-90, should describe the Brady Initiative as having got off to a good start. Having committed \$12bn of its own funds to the strategy, under which official resources will be used for the first time to finance methods of reducing the debt burdens of middle income countries, it would hardly say otherwise. Yet its World Debt Tables, published today, give a broad assessment of the Brady Initiative and point out areas in which it may be further developed. Exactly a year ago, the same survey called for just such a strategy. Countries agreeing to economic reform should, on a case-by-case basis, be eligible for official support for programmes under which they would co-operate with creditors to reduce their bank debt. The rationale was twofold: some countries' debt service burdens were so high that even with economic reform, the prospects for a return to growth were dim; second, a large debt overhang created adverse incentives which inhibited investment and led governments to view economic adjustment strategies as pointless. Since the strategy was adopted, three agreements have been negotiated though none has yet been finalised. The Bank says that reaction to the Mexican agree-

ment - probably the furthest advanced - shows that the benefits of debt and debt service reduction can extend beyond their direct effects. The agreement resulted in a reduction in domestic interest rates as flight capital was repatriated, and an increase in foreign direct investment. The case-by-case approach has also shown itself to be viable, it says. Mexico has focused on debt reduction instruments, while the Philippines has concentrated more on new loans. Costa Rica opted for an 80 per cent reduction of its bank debt. The common thread is that all three countries have adopted strong economic reforms, without which a reduction of debt service burdens would work only as a temporary palliative. One of the benefits of the new debt initiative is that it increases the incentives for governments to adopt such policies. It calculates the \$30bn-\$35bn in official resources available suggest that total debt service against new loans to highly-indebted countries as soon as they are made. This inhibits the banks from extending such loans. It suggests more favourable regulatory treatment of fresh credits extended in connection with officially-supported financing programmes. Finally, the publication calls for creditor governments to join in providing extra resources to support the Brady Initiative. Only the Japanese Ex-Im Bank has so far done so.

countries which allow foreign bank access to their financial markets and liberalise their financial systems "should be able to attract inflows of new funds for trade, project and private sector financing." It concedes that other factors need to be in place for the strategy to succeed, including a favourable external environment which can be provided by industrialised countries. "A two percentage point increase in international interest rates would completely wipe out the maximum amount of debt and debt service reductions that can be achieved under the new strategy, while leaving the borrowing countries with the additional debt burden of \$30bn to \$35bn resulting from loans in support of debt and debt service reductions." The Bank also notes that regulators in some countries, notably Canada, France and the UK, oblige commercial banks to provide reserves against new loans to highly-indebted countries as soon as they are made. This inhibits the banks from extending such loans. It suggests more favourable regulatory treatment of fresh credits extended in connection with officially-supported financing programmes. Finally, the publication calls for creditor governments to join in providing extra resources to support the Brady Initiative. Only the Japanese Ex-Im Bank has so far done so.

OTHER POINTS FROM THE WORLD DEBT TABLES

THE total debts of all developing countries are estimated to have risen modestly this year after a slight decline in 1988. The end-1989 figure is preliminarily estimated at \$1,290bn, compared with \$1,284bn a year ago and \$1,292bn two years ago. At the end of next year, the figure is projected to be \$1,319bn. Transfer of resources from developed countries continues at unprecedented levels. Transfers from all developed countries totalled an estimated \$51.6bn, against \$52.0bn last year. Severely indebted middle-income countries transferred a record \$31.7bn, against \$31.2bn in 1988. The severely

indebted low-income countries fared better, in receipt of a net \$11m against transfers of \$500m against them last year. By the end of 1989, official creditors will account for 48 per cent of total developing country long-term debt, against 38 per cent in 1988. Arrears of all developing countries to all creditors amounted to \$82bn at the end of last year, up from \$41bn a year earlier. Concessional debt reschedulings in Africa under the Toronto terms yielded cash flow savings to 12 countries of a modest \$3m this year. However, the benefits should grow over time.

The World Bank has coined still more acronyms and so redefined the status of a number of debtor countries. They are SLICs (severely indebted low-income countries), SIMICs (severely indebted middle-income countries), MILICs (moderately indebted etc) and MIMICs. Colombia and Yugoslavia, two countries of the Baker 15 (defined in 1985 by Mr James Baker, then US Treasury Secretary, as middle-income debtors deserving special attention) and Jamaica, are now classified as MIMICs. Nigeria, another of the Baker 15, is now a SLIC. Hungary and Poland are both SIMICs, as based on recent data in Egypt.

Brussels to give Turkey polite brush-off

By David Buchan in Brussels

THE European Commission is today expected to give Turkey's two-year-old application for EC membership a polite but firm brush-off, with Brussels stressing the inappropriateness of the Community taking in any new members before 1992 as much as the specific political, economic and social gaps between Turkey and the EC. The Commission was last night finalising its opinion on the membership application which Ankara lodged in April, 1987. It has been a foregone

conclusion for some time that the Commission would recommend against opening entry negotiations with a country as poor, populous and with such different political, religious and social traditions from the Community as Turkey, at a time when the Twelve are trying to forge their single market and negotiate new steps into monetary union. But there is equally a strong desire here not to give offence to the sensitive Turks, to whom EC rejection will appear

a slap in the face. Re-drafting the precise wording of the rejection was still going on last night, with particular delicacy centred on Turkey's human rights record which has been frequently attacked in the European Parliament. Indeed the Single European Act's requirement that the Parliament must approve any new entry most unlikely for the foreseeable future, whatever the Commission and Council have to say.

EC and Efta go back to drawing board

Robert Taylor and David Buchan report on talks to forge a market of 320m people

THE PRIZE is great - a not too uncommon market of 320m people, comprising the 12 members of the European Community and the six members of the European Free Trade Association (Efta). Tomorrow the foreign ministers of these 18 countries meet in Brussels to give the green light to the start of negotiations aimed at forging what has been dubbed the European Economic Space (EES). In the long run, this may provide one of the important means for redrawing the map of Europe with the eventual inclusion of eastern European countries in a new economic and political order. Yet, even as the meeting opens, it is clear that grasping at the basic prize of the EES will be hard for ministers on both sides of the bargaining table. Efta officials say the timetable for the talks has already been drawn up for ministers to approve. It is planned that during the next three months, senior civil servants of both organisations will conduct exploratory talks with the aim of achieving an outline agreement by the middle of next year and concluding the negotiations with an agreed treaty between the two sides by the end of 1990. This will be ratified by the EC and Efta during the following year and, after a short transition, come into force in parallel with the completion of the EC's internal market on December 31, 1992. Yet the European Commission is wary about such a tight deadline. Brussels officials say the bargaining with the Efta countries will be even more complicated than if the Six were applying for full Community membership. Entrants to the EC club have no choice but to accept the full menu of existing Community rules but, in this case, there will be much pulling and hauling between both sides as to which Community rules should apply to the 18-nation market and which should not.

Events outside, meanwhile, may well short-circuit this process. The impetus for change across Europe is now so strong that the rather tortuous and leisurely pace of the EC-Efta minutet could yet prove inadequate. Much will depend on what happens in eastern Europe where the results of the year, and in the two Germanys, in recent months Efta has been contacted by the Soviet Union, Poland and Czechoslovakia, while Hungary is seeking a co-operative agreement with Efta, even showing



interest in eventual membership of the organisation. However, they want to utilise the limited resources of the Geneva-based organisation for their forthcoming talks with the EC, rather than divert their attention to the problems of eastern Europe. There is particular resentment among some Efta states that the free trade body should be regarded as an EC ante-room for the eastern European economies as they become more market-oriented. They point out that they are advanced market economies with the same values as those of the EC and nothing in common with the eastern bloc. Efta is also concerned that the impetus for the creation of a European Economic Space through negotiations with the

organ, such as a joint ministerial council and a special disputes tribunal, probably composed of the European Community's Luxembourg court and judges from Efta. Differences also have to be ironed out next year over whether decisions taken in the economic space will be reached by consensus - or by majority voting. While the EC has waived the need for unanimity in many areas, Efta still works by common agreement. This may have to change. Otherwise individual Efta states would be able to opt out of particular decisions in the economic space they dislike. The Community's demand that any EES treaty take precedence over national legislation will probably prove possible for the Efta six to swallow, although they have not the experience of supranationalism that the Rome Treaty has given the Twelve. The sticking point for them is far more likely to be the EC's insistence that, however big a hand the Efta states have in shaping Community decisions through consultation, they cannot share in the taking of these decisions, despite the loose words Mr Delors used about "common decision-making" last January. Brussels officials say that, if the EC Council of Ministers were to wait for a common Efta view on policy issues, it would be itself open to endless Efta lobbying of, say, former Efta members such as Denmark, Britain and Portugal, or

tative could propel more Efta members than Austria into applying to enter the EC club at a time when the Twelve want to limit their number. In Sweden, the Efta route is not regarded as an end in itself but only a step in the direction of full EC membership. The two main employer organisations have come out in favour of Sweden joining the EC, as have the country's two main opposition parties, the Moderates and the Liberals. They feel the eventual Efta-EC agreement will be too limited and believe events in the rest of Europe are making the whole process look obsolete. There is a similar feeling growing in Norway. By contrast Switzerland has had to make the most drastic adjustment to its EC strategy since Mr Delors told the Six to negotiate as one body. Before then, the Swiss had gone it alone as far as possible, trying to create bilateral deals with Brussels. They had been achieving some success, as in a recent deal over reciprocal establishment rights for insurance companies. The decision-making issue threatens to subvert Swiss federalism and direct democracy. It is difficult enough to see how EES decisions can be subjected to Swiss national referendums. Whatever compromise is reached, it will involve a fine-tuning of the Swiss national government. When accused recently of not disclosing the full import of the Efta-EC negotiations, President Jean-Pascal Delormur admitted that the federal government had kept quiet because it did not want prematurely to raise "excessive alarm". There is, in general, a danger in seeing the EC-Efta process purely in economic terms and minimising the political significance as far as possible. Given the flux of events in eastern Europe these days, this no longer looks feasible. Other external developments could soon reshape the negotiations next year, especially if the so-called Helsinki process were to gather pace, bringing nearly all European countries into broad discussions on subjects beyond economics. Efta has come a long way in a short time, in the face of EC pressure, but it will have to move much more rapidly next year if it hopes to keep up with the momentum which is redrawing the European map.

Efta has come a long way in a short time but will have to move faster to keep up with other events in Europe. EC will rate a much lower priority with Brussels, not only than the 1992 internal market, but also than the evolution of relations between the EC and eastern Europe. Brussels has long made it very clear that any agreement between the two blocs must not impede in any way the EC's own integration, nor involve any rewriting of the Treaty of Rome. There is also to be no possibility of Efta becoming a direct participant in the Brussels decision-making which is confined to EC member states. The burden of concession thus falls lopsidedly on the Efta side. Being in essence the demandeurs in the forthcoming negotiation, the Six will have to accept the Twelve's practices in meshing technical standards together, opening public procurement, cracking down on cartels and state aids, allowing free movement of workers, goods, services and capital. The Commission stressed last month. No attempt would be made, however, by Brussels to foist the flawed Common Agricultural Policy (CAP) on Efta. Efta would be asked to extend its common commercial policy, or its ambition to remove internal border checks, to Efta. Until now a rather loose trade confederation of six sovereign states, Efta has held

together reasonably well over the past 12 months in working out the common response to Brussels' demand on it last January by Mr Jacques Delors, EC Commission President. This is despite Austria's formal application last summer to join the EC and the hot and cold attitudes of the Swiss Government. The Nordic countries in particular are working closely together. The rapidity of the EC's move to a free internal market has galvanised Efta into a much more activist role and forced it to seek a more coherent and collectively agreed position in its discussions with Brussels. Creation of the single EC market has made the tariff-free access (since 1984) of its industrial goods less valuable and potentially less competitive against Community insiders. Efta states more and more feel forced to follow Community rules without any say in the shaping of those rules. The political consequences, however, of having to go more than half-way to meet the EC are very serious for six countries - four of them neutral - very conscious of their sovereignty. The fundamental problems that face the negotiators after tomorrow are: What kind of joint body will be needed to supervise the regulations that will cover the space? The nature of the joint legal institution responsible for upholding the laws that govern both the Efta and EC areas in the space. As Efta said after its ministerial meeting in Geneva last week: "What is needed are institutions for co-operation which recognise that Efta countries and EC countries have common economic concerns but work under different political constraints."

The way Brussels describes it, the EC and Efta would form "two pillars", linked by a "common" process of constant consultation, and equipped with one or more "common

At present Efta states feel forced to follow EC rules without having a say in the shaping of those rules. of EC states with strong trade and cultural links to many Efta countries such as West Germany. Community integration would be fatally compromised, they say. Brussels, however, could not view failure to create the EES with equanimity. That is not just because it was Mr Jacques Delors, Commission president, who launched the current negotiations with his call last month for the EC and Efta to see if they could create "a new and more structured partnership with common decision-making and institutions" - the precise phrasing of which he "now regrets. It is" also because failure of the EES in-

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North-South divide slows 'arms market'

By David White, Defence Correspondent

PROGRESS towards a Defence 1992 - a common market in arms among European members of Nato - has fallen behind schedule in the initial stages and is becoming bogged down in a North-South divide. Defence ministers from the 18 European allies belonging to the Independent European Programme Group (IEPG) launched an "action plan" late last year to encourage cross-border competition in military goods. The centrepiece of this was a UK-inspired plan for all countries to make information available to the others. Britain and France were already publishing monthly "country bulletins" listing projects open to tender, and the aim agreed by IEPG ministers was that the others should be doing the same by the end of this year. But so far, no other country has done so, and only three - Italy, Norway and Belgium - are known to have taken preliminary steps in this direction. In the meantime, an administrative secretariat for the IEPG, previously organised by an official at the UK's Nato delegation in Brussels as part of his duties, has been set up in Lisbon but is unable to fulfil its job of centralising data. The secretariat, with five executive officers, is headed by a Spaniard, Mr Juan José Chao. However, the Spanish Government is the one that has taken the most cautious line about moves to promote all-out competition. Madrid is pressing for firmer guarantees of reciprocity in a more open arms market. Last year's Action Plan acknowledged that "some kind" of "juste retour" - ensuring export markets in exchange for imports - had to be arranged as a means

of gaining all members' support for cross-border competition. But British officials say this will be hard to implement. Compiling reliable information on defence trade flows is itself complicated by discrepancies between national data and definitions of product groups. The juste retour principle has also raised some eyebrows at the European Commission, although the Commission is generally supportive of the IEPG initiative. The IEPG overlaps with the Community, comprising all EC countries except Ireland, with the addition of Norway and Turkey. Arms production and trade were excluded under the Treaty of Rome from the scope of European Community policies, but the Single European Act of 1986 pledged EC members to closer co-operation in defence issues. Britain, which currently chairs the IEPG, is hoping for more visible progress on the Action Plan at the next ministerial meeting, at Genoa in Britain in February. At their last meeting in June, ministers re-phrased their target for publication of contract opportunities, aiming instead for "the turn of the year" UK officials say. If half the members are complying by Easter, the result will be "quite good". However, a clear split is opening between the northern and southern countries, except Italy. The Action Plan assesses the possibility of special transition periods for the three countries with "less-developed defence industries" - Greece, Turkey and Portugal. They and Spain remain concerned about the possible impact of opening their procurement markets to the Community's more powerful arms producers.

EC research budget confined to £4bn

By Lucy Kollaway in Brussels

THE EC has set a research budget for the next five years of Ecu5.7bn (£4.2bn), in defiance of the Commission's plans for bigger expenditure. The budget, which will run from 1990 to 1994 is a modest increase over the Ecu4.4bn in the present programme, and well below the Ecu7.7bn suggested by the Commission. Ministers had been under instruction from heads of government to reach agreement on research, which had been one of the items singled out at this month's Strasbourg summit for urgent resolution. Most member states felt that the Ecu7.7bn suggested by the Commission was not justified by its proposals for spending

the money, which they argued did not present much of a departure over existing plans. Some countries were noticeably more willing than others to increase the research budget, with France and Italy prepared to agree to the Commission's original proposals, while the UK, the Netherlands and Spain were hoping for less. There was also considerable disagreement on the allocation of the funds, but resolving the demands of all 12 member states proved so difficult that the Commission's original breakdown was in the end adopted. Most of the money will continue to go to information and communications technologies, although there will

be more money than before for environmental research. The new plan will be simpler and more flexible than the old, with 15 different categories of research replacing the 37 in the existing programme. The Commission had originally suggested that six categories of research would be enough, but member states had been concerned that this would have given the Commission too much power over how the money would be spent. Although the budget will run for five years, negotiations on a new budget will almost certainly begin earlier - giving the Commission a chance to draw the extra Ecu2bn back into its plans.

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UK NEWS

Labour aligns union code with EC Social Charter

By Philip Stephens, Political Editor

THE LABOUR Party leadership yesterday unveiled a further radical shift in its approach to the trades unions and employment law by announcing that it was abandoning its support for the pre-entry closed shop.

Under the pre-entry closed shop system workers have to be a member of a trades union before being accepted for employment.

The move, which is expected to anger MPs and trades unionists on the left of the party, was announced by Mr Tony Blair, Labour's employment spokesman, in a carefully drafted statement to his own Sedgefield constituency party.

It has the full backing of Mr Neil Kinnock, the Labour leader, and has been discussed in advance with the leaders of the main unions in an attempt to minimise the opposition.

There were signs yesterday that unions are likely to fall in line with a shift in Labour's policies. Leaders of the Trades Union Congress have already started a review of the implications of TUC support for the social charter.

Mr Ron Todd, general secretary of the TGWU transport union, said he believed that unions could not support parts



Tony Blair

of the Social Charter while rejecting others. "We cannot just treat it like a curate's egg," he said.

Mr Blair's statement, which brings the party's policy into line with its strong support for the European Community's Social Charter, comes ahead of the publication of this week of a Government bill which will outlaw the closed shop.

It will be seen at Westminster as an attempt to minimise the Government's scope to embarrass Labour over the provisions in the Charter guaranteeing individuals the right not

to join a union. More broadly, the policy shift indicates that Mr Blair - a close ally of Mr Kinnock - is determined to blunt the Government's criticism that despite the changes of the past two years its present approach to employment law has left it "in hock to the trades unions".

Mr Blair insisted that his statement was firmly in line with the principles established early this year in the party's policy review. The aim was to create an "even-handed" rather than a "one-sided" approach to industrial relations.

Labour's strategy would be based not on favouring either employers or trades unions but on a recognition of the rights of the individual. It would see the role of unions as one of advancing the interests of individuals.

That meant that Britain, like its European Community partners, should enshrine in law the right to join a trades union and provide protection from dismissal for lawful strikers.

He signalled the prospect of further policy changes by stating that the rights of employees cannot be the only determinant of industrial relations law.

Leader, Page 16

Strike laws in UK 'tougher' than most within Community

By Fiona Thompson, Labour Staff

LEGISLATION covering strikes in the UK is more restrictive than that of most other states in the European Community, according to a study published today.

The survey by the Labour Research Department, the independent union-funded research group, compares the extent of the freedom to strike in the UK with the position in the other 11 EC states.

It contrasts the laws regulating strikes, lockouts, occupations, sympathy action and strikes in essential services, and looks at the impact of strikes on the employment contract.

The survey concludes that UK workers taking strike action are in a much weaker position regarding legislation than workers in other states.

For example, the UK is one of only three states which fails to offer statutory or constitutional guarantees for the right to strike. Denmark and Ireland are the other exceptions.

Similarly, only three states presume that contracts of employment are broken by strike action. In all other nine states, the contract is

suspended.

In general, employers' lockouts do not enjoy the same protection as strikes, the survey says. However, the UK is one of only two states, with Ireland, which does not place greater limits on the employers in this instance's right to lockout, compared with the employees' right to strike.

The level of strike activity varies from one EC country to another. The study says that the most up-to-date comparative figures show that Spain, Italy, Ireland and Greece have all recently experienced higher strike levels than those in the UK. Although the figures vary slightly from year to year, the pattern remains similar.

The figures illustrate that, despite sometimes significant legal constraints, in other countries as well as the UK, workers still take industrial action.

Therefore, despite the severity of the union legislation introduced in the UK during the past decade, UK strike figures still remain significant.

Surveying Report No 99: Labour Research Department, 78 Blackfriars Road, London SE1 8EF.

BAe shift workers signal first crack in engineering campaign

By John Gapper, Labour Editor

THE FIRST sign of a crack in the strike campaign for a shorter working week in the engineering industry emerged yesterday when some manual workers at British Aerospace's Preston plant returned to work on the first shift of the week.

BAe said that 70 out of about 95 skilled workers in the machining section of the plant had reported for work for the first time in seven weeks after it offered to pay three weeks' wages to those breaking the strike.

The return to work follows a BAe offer to negotiate a 37-hour working week at its strike-hit plants at Preston, Chester and Kingsthorpe. Changes in return for productivity improvements provided that strikes were ended.

The BAe return to work is the first significant setback for the engineering unions' campaign, which has won reduced hours at NEI-Parsons in Newcastle upon Tyne, Smiths' Industries and Cheltenham and Rolls-Royce at Hillington, Glasgow.

Employees at Hillington will return to work with national union backing this morning after they overturned their earlier rejection of a 37-hour week deal in return for productivity improvements at a mass meeting on Saturday.

The strength of the strike at the BAe Preston plant will be tested this morning when the main shifts at the plant are due to report for work. About 2,500 workers have been on strike at Preston, out of the 4,500 employed at the plant.

BAe said it had offered to pay three weeks' wages to those resuming work this week, including payment in full for a two-week plant shut-

down for the Christmas and New Year period.

But it said it had not been given any warning that the machining section workers, mostly skilled members of the ASU engineering union, would be resuming work. It said the action appeared to be spontaneous.

The Confederation of Shipbuilding and Engineering Unions, which is organising the campaign, said it believed the workers involved were among the highest paid in the plant, and most likely to feel reduced strike pay inadequate.

Last Monday, the Confederation reduced strike pay from about £150 a week including individual union contributions to some £85. The move was made because of pressure on the central strike fund and the expectation of a prolonged BAe dispute.

EMPLOYERS' MONTHLY TRENDS REPORT

Recovery in export demand

By Terry Byland

A RECOVERY in export demand for the products of British manufacturing industry is reported in the latest monthly survey of industrial trends carried out by the Confederation of British Industry, the employers' organisation.

The report lends support to UK Government hopes that demand from overseas for British goods will help counterbalance the setback to home demand prompted by high interest rates in the UK.

Some 19 per cent of firms rate their export orders "above normal", and 26 per cent "below normal". The minus 7 per cent differential halves the trend figure for the previous

month and is broadly similar to the position a year ago, says the CBI.

The report, covering the period November 14 to December 12, offers little consolation on domestic demand, which it describes as "very sluggish", although it says the proportion of UK firms expecting to introduce price increases last month was the lowest for two years.

Mr David Wigglesworth, chairman of the CBI's Economic Situation Committee, said that the restriction on ability to introduce price increases in home markets, while good news on the inflationary front, "clearly affects

the prospects for investment next year."

The CBI survey covers nearly 1,400 firms which are responsible for about half the exports and employment of British manufacturing industry. On prospects for growth in output in UK manufacturing industry, the report shows no sign yet of a recovery of confidence among CBI members. Those responding to the survey expect hardly any increase in output volumes over the next four months, views following in the wake of an earlier report which showed that CBI members were looking for only low output growth until the end of 1991.

Flights resume at Manchester Airport

FLIGHTS resumed at Manchester Airport yesterday after firemen crossed picket lines of striking baggage handlers and provided the safety cover needed for passenger operations, writes Ian Hamilton Fazez, Northern Correspondent.

Volunteers from the airport and airline management turned out to load and unload

baggage and catering supplies, while British Airways, Air Europe, and Britannia immediately flew in empty aircraft to restart normal services.

The airport management said last night that volunteers' baggage handling rosters would be fully operational by today and that the airport should be almost back to normal by tonight.

The handlers stopped work on December 1 in a dispute over new shift patterns. Management kept the airport open until last Monday, when firemen in the Transport and General Workers Union - the same as the handlers - decided not to pass the pickets.

The strike's continuation will be decided by a mass meeting of the handlers today.

Polaroid health campaign cuts absenteeism

By Our Labour Editor

POLAROID, the US-owned photographic manufacturer, has cut absenteeism at its plant near Dumfries, Strathclyde, Scotland, by introducing a workplace health campaign allied with stronger monitoring of the reasons for absence.

The company's health promotion campaign, aimed mainly at reducing heart disease, has now been adopted as the model for a local community health programme jointly funded by the company and public bodies.

Although screening and health campaigns for employees are becoming more common, the Polaroid initiative is unusual in attracting public funding from the Urban Aid programme and the Scottish Health Education Group.

The health campaign has concentrated on measures such as reducing blood cholesterol levels. A new policy on smoking, bringing in no-smoking areas, is to be fully introduced in March.

The company says the two initiatives have helped to cut absenteeism from 6.3 per cent in 1982 to 3.7 per cent for the 10 months to October this year. Polaroid estimates that the reduction has saved it about £113,000 a year on average since 1985. It also believes the health promotion campaign has improved employee motivation and its image.

All-out strike in ambulance dispute urged

By Our Labour Staff

CALLS for an all-out strike by ambulance crews were made yesterday by local union officials as the dispute entered its 14th week, indicating growing pressure on union leaders to step up action.

At the same time, a group of Conservative MPs urged the Government to offer a compromise to end the dispute. In the proposal, ambulance workers would be given a pay review body in return for accepting the 6.5 per cent pay offer.

Mr Roger Poole, the unions' chief negotiator, rejected strike calls by members of his union, the National Union of Public Employees. He said he believed the calls arose out of frustration, but tactics would remain the same.

Ambulance services have been disrupted in many regions. On Friday night, troops were called in to take over emergency services in Birmingham and Dorset, while London crews started refusing to take calls from controllers.

Mr Sidney Spence, a Nupac official on the unions' national disputes committee, said a strike in the new year was likely. Meanwhile, Mr Jerry Hayes, Conservative MP, said he would ask Mr Kenneth Clarke, Health Secretary, to accept the need for a pay review body for ambulance workers in return for a settlement of the dispute.

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UK NEWS

Peter Pan of pharmaceuticals is high flier in its field

Peter Marsh and Richard Donkin report on the rise of Porton and profile Wensley Haydon-Baillie, its dynamic but shy chairman

MR Wensley Haydon-Baillie rules over two large country estates, a collection of exotic cars, aircraft and boats — and a fledgling pharmaceutical company backed by an unusually large sum of money.

He has secured a remarkable deal with the Government on the commercialisation of inventions from a key research establishment and has one of the most illustrious addresses in London with a personal fortune to match.

Mr Haydon-Baillie has the manner of a country squire and is capable of displaying great charm. He has also emerged as the only clear winner so far in what has turned out to be a mighty gamble for many of Britain's largest financial institutions — and for the Government.

Porton International, his private biotechnology company, has become the Peter Pan of pharmaceuticals, floating high above the other start-up companies in the same field.

Investors have ploughed \$76m into Porton over the past seven years and, while they were given new heart recently by the announcement of two small acquisitions in the UK and the US, they are unlikely to discover before the spring



Keep out: Wentworth Woodhouse, which Wensley Haydon-Baillie plans to restore as his family seat, and the Centre for Applied Microbiology and Research at Porton Down

whether backing what has already proved to be an over-optimistic venture is likely finally to pay off.

Mr Haydon-Baillie, 46, owns a third of Porton and is its chairman. In a planning document for investors in 1985, the company indicated that by this year it would be earning a pre-tax profit of £128m, £77m of which would come from a new herpes drug.

Profits, however, have not even kept pace with what the institutions could have earned if they had put their money in a Post Office savings account.

Along the way, Mr Haydon-Baillie has made large sums of money from Porton, including a share transaction which brought him £24m.

His decision in 1986 to sell some of his shares in Porton was described as "unbelievable" by Mr Derek Layton, Porton's former joint chief executive, who resigned last year after a disagreement.

Mr Haydon-Baillie, who is also chairman of Optical & Medical, a publicly quoted electronics company, has been unavailable for comment for several months.

In an interview a year ago, he said he was sure of Porton's long-term success. He was confident it would grow as big as

Glaxo, Britain's largest pharmaceuticals group.

The Government is involved in the Porton story because in 1985 Mr Haydon-Baillie persuaded Mr Kenneth Clarke, then Health Minister, to grant him a potentially lucrative licence regarding an important research institution.

Under the agreement, Mr Clarke, who is now Health Secretary, authorised Porton to commercialise inventions from the Centre for Applied Microbiology and Research (CAMR) at Porton Down in Wiltshire.

Porton reached that agreement with Mr Clarke in the face of opposition from established UK pharmaceutical companies — in particular from Wellcome and Beecham — that had also expressed interest in reaching a formal accord related to CAMR. The deal

with the Government impressed Porton's future investors and played a big part in persuading them to put further sums of money into the company.

As part of the accord, Porton agreed to pay for a new fermentation unit at the centre at an estimated cost of £20m. Mr Clarke thought that was a way of introducing private money to the laboratory and boosting its commercial performance.

In the event, the unit has not been built, although the Health Department says that discussions about construction are still taking place.

Lord Glenarthur, a former parliamentary under-secretary at the Health Department, was closely involved in the negotiations with Porton. He said that the building of the unit was a fundamental part of the deal

and he was surprised it had not gone ahead.

Both he and Mr Clarke had examined Porton's proposals thoroughly, said Lord Glenarthur, who left the Government in the summer. "There was no favouritism. It [giving the licence to Porton] was a risk, but we took a lot of care."

Lord Glenarthur, who now works for Hanson, the industrial holding company, said: "Mr Haydon-Baillie rang me up out of the blue to talk about CAMR. He was very thorough and persistent."

There is a further twist in the Porton saga related to Whitehall because Mr Clarke is now considering outright privatisation of CAMR — with Porton being canvassed as one possible purchaser of the laboratory.

Mr Clarke has received consultants' reports on the issue from PA, the management consultants, and Shearson Lehman Hutton, the US bank. He has indicated that he is going to decide about the matter before Christmas.

The Porton story also raises issues related to the financial institutions that put up the £76m equity for the company. The list of Porton's shareholders reads like a roll call of Britain's most powerful financial institutions.

It includes Legal and General, Lloyds Bank, Equity and Law, Sun Alliance, Robert Fleming, General Accident, Hill Dickinson, Kiewitwort Benson, Sun Life, Standard Life, National Provident and the pension funds of ICI, National Westminster, British Telecom and the Post Office.

Most of those groups were won over after Mr Haydon-Baillie made personal presentations to directors emphasising the promise of his new company.

The institutions now take a mixed view about their investments. Some are not particularly worried that plans have slipped behind schedule and say they still have high hopes for the company. Others say they are seriously concerned.

Some of the shareholders have drawn attention to several features about Porton that are unusual for a company in pharmaceuticals in an early stage of development.

● The large amount of equity capital is substantially higher than any other sum raised privately in start-up funding for a fledgling pharmaceutical company in either the US or the UK. In the US in particular, financial institutions almost always hand out their cash in small amounts related to specific needs.

● The practice of paying a dividend, which Porton has done for the past four years, is not normal in the risky business of pharmaceuticals at the early stages of growth. For the past three years the after-tax profits of Porton have been about £4m.

Mr Haydon-Baillie himself, by dint of his personal shareholding, has collected some \$500,000 a year in dividend payments over the period in addition to his annual salary of about £100,000.

● Up to the end of last year, Porton had spent only about a third of the £76m capital and had cash deposits of \$50m. Interest on those last year came to £5.2m, accounting for virtually all the pre-tax profit and making possible the payment of a dividend.

● Porton does not include development expenditure in its profit-and-loss account. If it did, the company would be running at a loss. Instead, the figure, which came to £7.9m last year, is included in the accounts under intangible assets. The practice of capitalising development expenditure for a company such as Porton is considered unusual in the pharmaceutical industry and in the accountancy profession.

Buttressed by the deal involving CAMR, Porton was

Brisk but bashful businessman



Wensley Haydon-Baillie: "a bit paranoid about the press"

MR WENSLEY Haydon-Baillie is known in the City as a workaholic with a string of top-level connections among UK establishment figures.

His reputation for courtesy and charm while pursuing a vigorous social and business life belies a shy side to his nature demonstrated by the great lengths to which he goes to shelter from the media.

Lord Montagu of Beaulieu, one of his friends, describes him as "a very shy, very dynamic person I know" who is "a bit paranoid about the press."

The reason for such public reserve is unclear since, if anything, Mr Haydon-Baillie is a man who has adopted a philanthropic profile.

He has not only established the International Maritime Institute, an organisation dedicated to oceanic research, but has determined to restore one of the nation's great stately homes as his family seat.

The institute is based with his private museum at a Southampton dock base where he keeps his collection of historic aircraft and naval fast patrol boats, including Brave Challenger.

In March this year, Mr Haydon-Baillie acquired the 17th

century seat of the Marquess of Rockingham, Wentworth Woodhouse, near Rotherham in South Yorkshire. With its 606-foot facade and more than 300 rooms, it is reputedly the largest stately home in the country.

Just how much he paid has never been disclosed, but he announced at the time that he had set up an endowment trust to provide for its restoration.

A surgeon's son from Worsley in Nottinghamshire, Mr Haydon-Baillie read economics at Exeter University, graduating with a third-class honours degree.

His real success started after a two-year spell at Slater Walker, the merchant bank that collapsed in the early 1970s. He was left in possession of enough capital to secure a controlling interest with his partner Mr Anthony Gover, a Cambridge law graduate and chartered accountant, in Watsaham, a publicly quoted electrical engineering and contracting company.

The group has just got back into profits after a series of dull performances in the late 1980s. Under their control the company gained a high-tech image and earnings multiples to match. It specialised in opti-

cal equipment with military applications, distribution of medical equipment and compiling technical manuals.

The company was renamed Optical & Medical in 1987 and in its last accounts, published earlier this year, had lifted pre-tax profits for the year to the end of March from £5.1m to £7.03m on sales of £35.56m.

The undisputed success of Optical & Medical gave Mr Haydon-Baillie and Mr Gover a record among City institutions, especially those which had prospered out of the substantial rise in Optical & Medical share values.

At the time Porton International was set up, the biotechnology business — especially in the US — was populated by many small, exciting companies, full of optimism and with the potential of high returns for anyone bold enough to invest. That was an important factor in helping Mr Haydon-Baillie to raise money from respected institutions.

Other factors were his tactics of going to the top among potential investors, emphasising the potential of the deal with the Centre for Applied Microbiology and Research and surrounding himself with the best expertise he could find. He recruited Mr John Burke, a highly respected ex-Glaxo director, in 1986 to act as Porton's chief operating officer. Porton's accounts indicate that he was paid £270,000 last year for eight months' work.

Recently he attracted Lord Chilver, the chairman of English China Clays and former head of Cranfield Institute of Technology, to Porton's board as the company's single most executive director.

His desire to surround himself with the best people extends to his other affairs. He has a working association in the aeronautics field with Mr Brian Trubshaw, the former chief Concorde test pilot.

Lord Montagu, who is a near neighbour to Mr Haydon-Baillie's Hampshire home, says that the restoration of Wentworth Woodhouse has become his friend's current passion. At present the house looks rather bleak, wedged as it is in a tract of countryside between the industrial centres of Barnet, Rotherham and Sheffield.

Much of the estate is used as a deer park. Visitors are not welcome. A sign by a footpath that runs across the estate says: "Beware of the bull."

Air security satisfactory, Parkinson says

By Ralph Atkins

FURTHER steps to tighten security at British airports were unnecessary in spite of a warning from the US of a possible terrorist attack, Mr Cecil Parkinson, Transport Secretary, said yesterday.

The State Department's warning, issued on Friday, was "just an argument for enforcing existing security rigorously," Mr Parkinson said.

Security at airports was tighter than a year ago, he believed, but added, "we can never be satisfied."

He was speaking at the start of a week that marks the first anniversary of the Lockerbie disaster, which left 270 dead after Pan Am flight 103 was destroyed by a terrorist bomb.

"We feel that our level of security at present... is satisfactory for the perceived threat to us," he said.

Mr Parkinson told BBC Radio that the US warning of attacks on Americans in Western Europe and West Africa had not been interpreted by the Federal Aviation Authority as justifying extra security. He pointed out that the warning was aimed largely at US embassy staff.

Store cards reviving, survey says

By David Barchard

STORE CARDS issued by large retailers are growing in importance as a competitive weapon against other retailers and banks, according to a report published today.

Although store cards are unpopular because most charge higher rates of interest than cards issued by the clearing banks on the Visa and MasterCard networks, the report says that they are now reviving after a period of decline, with much of the overall growth coming from Marks and Spencer's store card. There has been a rapid increase in the average number of cards held by individuals.

Mr Terry Burke, the author, says store cards are particularly important in creating loyal customer bases and helping retailers to build up detailed knowledge of market conditions with customer databases collected via the cards.

He quotes leading retailers as saying that retailers' cards are only in their infancy as tools for building databases of commercial information for their insurers. "Retail cards yield market information that can be used to improve store location, store capacity, and store layout decisions," he writes.

According to leading British retailers quoted by Mr Burke, database information from cards can be used when taking decisions as to whether a new store should be sited on the edge of a town, or which types of merchandise to set beside each other.

Database information also enables retailers to target customers more precisely when sending out mail shots and to reduce the irritation of mailing operations providing irrelevant information.

Retailer Plastic, by Terry Burke, Faculty of Business, Polytechnic of Central London, 32-38 Wells Street, London W1P 3FG. £3.50

Trail of devastation after storms batter country

HURRICANE force winds of up to 115 miles per hour and torrential rain battered Britain at the weekend, leaving a trail of devastation in their wake.

Hope faded last night for six fishermen after the wreck of their missing boat was found.

Police divers found the 35-foot prawn boat Destiny on the bottom of the Firth of Clyde, Scotland, a quarter of a mile off Gourock pier. The coastguard said it was too risky for the divers to enter the wreck and the sea search for those on board was called off as the weather worsened.

The Destiny was lost in heavy seas and driving snow on Saturday as it tried to return to Greenock from a fishing trip to Holy Loch six miles away.

Devon and Cornwall perhaps suffered the hardest from the storms, with scores of incidents reported.

In Plymouth, Devon, the business community estimated that the cost of damage from the worst flooding in years could be more than £260,000. In the harbour, the Falklands museum ship HMS Plymouth broke free from part of her moorings and was holed, causing thousands of pounds of damage.

A car park surface in the Cornish village of Mousehole was washed away by the sea, and at Tolcune Bridge in Devon a volunteer had a lucky escape when he was washed away while helping to shore up sea defences.

In the Scilly Isles and along the south-west coast, dozens of boats were swept from their moorings or overturned, and the lighthouse at the entrance to St Mary's Harbour on the Scilly Isles was washed away.

At the storm's height, two Royal Navy helicopter crews braved tumultuous seas and storm force 11 winds to lift 21 people to safety from a drifting Spanish cargo ship in the Bay of Biscay that had lost its steering gear.

A search was continuing for the skipper of an Irish coaster, the Arklow Victor, which sank in the Bay of Biscay after a French helicopter rescued the five other crewmen.

Another seriously affected area was Lynton in Devon, where parts of the town were flooded by five feet of water as the sea surged in.

In Wales, 10 people were rescued from the roof of a flooded pub at Newgate, Dyfed, by an RAF helicopter. A policeman had to swim to safety after his patrol car was washed away on the seafloor as he went to help flood victims.

Mopping up continued in Northern Ireland after 24 hours of torrential rain.

Many parts of the province were under water for several hours with county Down the worst affected.

In Hollywood, the Strand area of the town was under six feet of water at one stage and residents had to be moved from their homes.

Elsewhere in Ireland, the storm tore a 150 ft hole in the sea wall at the fishing port of Kilmone Quay, County Wexford, damaging dozens of vessels.

NOTICE OF PREPAYMENT.

CNT
Caisse Nationale
des Télécommunications

ECU 30,000,000 12 1/2 % 1983-1992
Guaranteed Bonds ("Tranche C Bonds")

ECU 25,000,000 12 1/2 % 1983-1995
Guaranteed Bonds ("Tranche D Bonds")

In accordance with paragraph 6 "Repayment" of the Terms and Conditions of the Tranche C Bonds, notice is hereby given that CNT will redeem, on January 20, 1990 all the Tranche C Bonds remaining outstanding at 102% of their principal amount.

Furthermore, in accordance with paragraph 6 "Repayment" of the Terms and Conditions of the Tranche D Bonds, notice is hereby given that CNT will redeem, on January 20, 1990 all the Tranche D Bonds remaining outstanding at 102% of their principal amount.

Payment of interest and premium due on January 20, 1990 and reimbursement of principal will be made in accordance with the Terms and Conditions of both Tranche C and Tranche D Bonds.

Interest will cease to accrue on both the Tranche C and Tranche D Bonds as from January 20, 1990.

Luxembourg, December 18, 1989

The Fiscal and Principal
Paying Agent

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Farm institute to centre research in Aberystwyth

By Anthony Moreton, Welsh Correspondent

THE Agricultural and Food Research Council has announced that it will centre all its research work on poultry and grassland in Aberystwyth, Dyfed.

The move is part of a change of responsibilities within the council that will see all the work of the Institute for Grassland and Environmental Research centralised in the town, and is expected to create about 80 jobs.

The news was welcomed by Mr Peter Walker, Secretary of State for Wales, who said: "Some 60 per cent of the UK livestock production is in Wales and the western counties of England, and to base the new institute in the heart of that area makes sense."

It was also greeted by Mr Glyn Davies, chairman of the Development Board for Rural Wales, who said the move "significantly strengthens" the academic base of Aberystwyth, a university town, and would provide a new impetus for the economy of the area.

"The new institute will make Aberystwyth a worldwide centre of excellence for grassland and environmental research," he says.

Aberystwyth is already home for the Plant Breeding Centre and the Experimental Husbandry Farm, which will both transfer to the new institute.

Pension performance criteria studied

By Eric Short, Pensions Correspondent

DETAILED investigation into the measurement of investment performance by pension funds is being undertaken by the National Association of Pension Funds, the body representing occupational pension schemes and associated organisations.

Advance notice of the investigation was given some months ago by Mr Denis Brydon, chairman of the association's investment committee and chief executive of Barclays de Zoete Webb Investment Management.

The association has now given details of the composition of the investigating committee and its terms of reference.

Measurement of the investment performance of institutional funds — particularly pension funds and charities — based on sophisticated statistical and mathematical techniques has now become a large industry on both sides of the Atlantic.

However, there has also been growing concern about the use and relevance of the various performance statistics now available to trustees, fund managers, consultants and investors. Establishment of the inquiry reflects that concern.

The terms of reference of the committee of inquiry are set in three parts — the technical construction of the performance statistics, the presentation of the results and the use made of these results by trustees, fund managers and consultants.

The inquiry is chaired by Mr Maurice Stimefort, chief executive of British Rail Pensions Fund and formerly director-general and chief of the Greater London Council, prior to its abolition.

The association has deliberately chosen the composition of the committee so as to represent the users of performance measurement services.

The practitioners in the field will be some of the main providers of evidence to the inquiry. The committee is also seeking evidence and views from other interested parties.

Poll tax data will be used to update census details

By Richard Evans

THE GOVERNMENT intends to update its inadequate population census figures by making maximum use of the community charge, or poll tax, returns being prepared by local authorities.

That is apparent from a letter received at the weekend by all local authorities in England and Wales responsible for collecting the tax, which will replace domestic rates in England and Wales after April 1.

The move confirms the Government's urgent need to make its population statistics more accurate. The figures are based largely on the last census, in 1981. The widespread changes in population since then have made the basis on which com-

munity charge responses are estimated appear ludicrous.

Government figures published last week on community charge registrations showed many local authorities with returns well above 100 per cent, and the City of London with a bizarre 145.6 per cent.

The figures highlighted the size of the gap between the Government's statistics and the actual population. In England, the Government bases poll-tax registrations on a total estimated population of 35.57m, but the present estimate is 36.6m, so that the true relationship between those registering and the eligible total is impossible to judge.

The letter from the Department of the Environment explains the information requirements under the Government's new financial system, which also involves the replacement of non-domestic rates by the uniform business rate.

Community charge registration officers are asked to provide information about the numbers on their registers "for use by the Secretary of State for the calculation of the relevant population."

The intention is to provide information for the Office of Population, Censuses and Surveys to allow it to update its statistics, area by area, "which will be of benefit to both central and local government."

Statistics will be sought annually, probably each June.

The owners, a private company called Severn plc, blamed last month's decision to close the plant on workers' intransigence in refusing to accept new working practices.

Mr Askey said an overwhelming majority of the workers turned out yesterday to hear that an unnamed, but interested party might be interested in taking over the plant.

All but two of the workers have taken away forms to say whether they were interested in working at the plant under different ownership.

Union tells mill workers of move to save plant

By Richard Tomkins, Midlands Correspondent

WORKERS at Ratchiffs (Great Bridge), the West Midlands copper rolling mill due to close on Thursday, yesterday attended a mass meeting in West Bromwich to hear outline plans for a union-backed rescue of the plant.

Mr Terry Askey, Dudley district secretary of the Transport and General Workers' Union, is acting as mediator in an eleven-hour attempt to find a buyer for the rolling mill in the hope of saving the jobs of the 232 people working there.

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Labour picks Mandelson for safe seat

By Ralph Atkins

MR Peter Mandelson, Labour's director of communications who masterminded the party's highly regarded 1987 election campaign, was yesterday selected as Labour candidate for the safe seat of Hartlepool.

His victory marks a personal triumph for the 35-year-old former television producer, but might leave a gap in Labour's campaign team. Mr Mandelson has won a reputation for organisational and advertising flair.

Since taking on his job, he has succeeded in rebuilding Labour's image with the electorate - the most noticeable manifestation of which has been the promotion of the Red Rose as the party's symbol. In recent months, the party has enjoyed a strong lead in opinion polls. Mr Mandelson is

expected to continue as Labour's director of campaigns and communication for some months. He is likely to stand down before the next general election, possibly not for another two years.

However, he could still offer party leaders advice while campaigning in his own constituency.

Mr Neil Kinnock, the Labour leader, yesterday welcomed Mr Mandelson's success. "Peter, as ever, will be a great asset to the Labour Party and most certainly he will be a fine representative for the people of Hartlepool," he said.

Mr Mandelson is the grandson of Mr Herbert Morrison, Labour's deputy Prime Minister in the 1940s and a legendary Labour Party figure. In the party he is regarded as a "mod-

erate" or "right-winger."

In Hartlepool, he will replace Mr Ted Leadbitter, who is to retire as Labour's parliamentary candidate at the next election. Mr Leadbitter won a 7,288 majority over the Conservatives at the last election.

Mr Mandelson has developed a close working relationship with Mr Kinnock, although his concentration on image and publicity has irritated some colleagues within the party.

He has helped to promote some of the frontbenchers regarded as rising stars of the future, including Mr Tony Blair, Labour's employment spokesman, and Mr Gordon Brown, shadow Trade and Industry Minister.

Mr Mandelson secured 63.3 per cent of the electoral college vote, which gives individual

members 60 per cent and the unions 40 per cent. He won nearly 50 per cent of the membership vote 107 out of 182 voting members and 70 per cent of the trade union vote to win the selection ahead of Mr Roy Walker, a local councillor who took 21.5 per cent of the total ballot.

Mr Mandelson is tipped for a high-profile career as an MP. Mr Roy Roy Hattersley, the Labour deputy leader, was re-elected as party candidate in his Birmingham constituency yesterday, fending off a left-wing challenge sparked by black activists.

Mr Hattersley, MP for Birmingham Sparkbrook since 1964, won 66% of the vote in an electoral college. Ms Martha Osamor was the only other contender yesterday.

Financial services industry calls for easing of business tax rules

By Terry Byland

THE BRITISH Invisible Exports Council (BIEC) has appealed to Mr John Major, Chancellor of the Exchequer, to abolish stamp duty in his next Budget and grant more lenient tax treatment for UK business.

Lord Limerick, chairman of the council, says Britain's financial services industry is hampered in a competitive environment by UK tax rules. In a pre-Budget letter to the Chancellor, he singles out the effects of stamp duty, including stamp duty reserve tax (SDRT), payable on UK securities traded abroad, and on "the

detriment effect of unrelieved ACT (advance corporation tax) on cross-frontier business activity."

Lord Limerick says paperless transfers will offer the opportunity to reconsider SDRT. The reductions in stamp duty in the wake of the Big Bang abolition of fixed commissions on securities trading in the UK have reduced the cost of doing securities business, but those costs remain a significant element in most other important national securities markets, there is little or no such duty, he observes.

On ACT, the council says

that changes in regulations would encourage more international businesses to set up their headquarters in London. It proposes that any UK business earning more than its profits outside the UK should be declared an international holding company and permitted to pay dividends either with tax credit or without.

In the latter case, UK shareholders would be liable to income tax on the dividend "which, it is reasonable to assume, would be increased by the amount of what otherwise be irrecoverable."

Call to use goods to stabilise sterling

By Peter Norman Economics Correspondent

BRITAIN should link the pound to a basket of commodities as a preliminary to taking starting into the Exchange Rate Mechanism of the European Monetary System, according to Mr Kevin Dowd, an economist at the University of Nottingham.

In a paper published by the Bruges Group of Academics and Economists Opposed to a Federal Europe, Mr Dowd said that if sterling were redefined in terms of a basket of goods that had been chosen to keep prices stable, Britain could "eradicate inflation once and for all."

His proposed system would oblige the Bank of England to

buy back pounds with assets of the same value as the commodity basket defining sterling. A limit would thus be placed on the Bank's ability to issue money in much the same manner as the 19th-century gold standard.

Inflation would cease and Britain could enter the ERM with sterling as the key European currency, he said.

According to Mr Dowd, the British Government could then "set the agenda for Europe's monetary future" and provide a positive and coherent response to the Delors Committee's proposals for a European common currency and system of central banks.

Mr Dowd gave no specific details of the proposed commodity basket, claiming instead that "a good economist could come up with a definition within a week."

In a preface to the study paper, Mr Patrick Robertson, the Bruges Group's secretary, acknowledged that Mr Dowd's idea "may not be practicable when exposed to the scrutiny of European economists." Yet it was a "positive proposal that needs to be openly discussed," he said.

How to end European inflation, by Kevin Dowd (Sunday Paper IV). The Bruges Group, 55/57 Jermyn Street, London SW1Y 6JD.

Disaster backlash draws blood at Lloyd's

Patrick Cockburn on concern in some syndicates at the consequences of catastrophe

THE Lloyd's of London insurance market has enjoyed better times. In recent years it has shifted more and more into the business of insuring against catastrophe as the commercial companies have taken over more traditional areas of cover.

That did not matter very much in the mid 1980s when there were few catastrophes, but this year and last saw a series of disasters unprecedented in size and frequency. Given the degree to which Lloyd's and insurance companies lay off risk - in an endless game of pass the parcel - casualties among insurers have been slow to emerge.

Most vulnerable here are those involved in the incestuous reinsurance spiral in which reinsurers reinsure each other. Ultimate liability becomes difficult to assess as risks are passed backwards and forwards in deals of labyrinthine complexity.

This week, the Piper Alpha disaster of July 1988 claimed its first victim at Lloyd's. Marine syndicate 298, with 1,870 Names, or members, announced that it would cease underwriting for 1990 because of losses stemming from the destruction of the North Sea oil production platform at a cost of about \$1.5 billion.

Mr Hugo Pilch, finance manager of Gooda & Partners, which manages the syndicate, said members' agents representing the Names had "voted with their feet" and there were not enough Names to provide adequate capacity for the syndicate to continue trading in 1990. It might resume underwriting the following year.

Claims on the syndicate as a result of Piper Alpha had come through more quickly than expected in recent months. "Projecting forward, you can predict when you are going to break through reinsurance cover [the point at which the syndicate has to pay out its own money] and you begin to get very worried," Mr Pilch said.

Similar fears led to members' agents discouraging Names from becoming members of syndicate 298 next year.



Disasters: San Francisco earthquake (top), Piper Alpha (left), in insurance terms the worst ever offshore disaster, and Charleston in the US after it was hit by Hurricane Hugo

Mr Pilch considers that a little unfair, arguing that other syndicates and companies have been badly affected by Piper Alpha and other disasters but with less publicity.

The nervousness by Names also reflects more general concern about some syndicates specialising in excess of loss - the top end of a claim above a certain limit usually only triggered by disasters - and in particular those involved in the area of retrocessional business, where reinsurers reinsure each

other. Already at the end of November, Merrett Holdings, a leading Lloyd's underwriting group, announced that it was reducing its involvement in the London excess-of-loss market. In particular, it virtually pulled out of the non-marine retrocessional market, where Merrett had been one of the largest writers of business.

Mr Ken Randall, Merrett's managing director, said the group had been considering the move for some time but its fears had been crystallised by

the string of catastrophes this year.

Over a three-month period, insurers were faced with an unprecedented series of disasters: Hurricane Hugo, with insured losses of possibly \$9bn; the San Francisco earthquake (\$1bn); and the explosion at the Phillips chemical plant in Pasadena (\$1.2bn).

A significant proportion of those losses will end up in the London Market Excess of Loss (LMEX), where syndicates and fringe companies go for

their own reinsurance. Because of the number of times every risk is reinsured, real losses and the identity of those without reinsurance cover take time to appear. Syndicate 298 is still not clear about how much it will pay for Piper Alpha. Elsewhere in the market, reinsurance claims from long-forgotten disasters such as Hurricane Alicia in 1983 in the US are still surfacing.

Excess of loss has been one of the few growth areas in the London insurance market at a time when premium rates are low.

The pass-the-parcel movement of reinsurance through the retrocessional market produced profits regardless of the underlying risk - and the number of transactions conducted meant easy and profitable business for brokers.

Some syndicates and companies are now peculiarly vulnerable to past underwriting errors in accepting risks for low premiums, over tractability with brokers or inadequate reserves for present needs. "We think there are quite a number of syndicates nudging the top of their protection," says Mr Hugh Kirkland, head of marine reinsurance at E. W. Payne, the reinsurance branch of Sedgwick Group.

The overall capacity of the LMEX market may now suffer. "Prophets of doom suggest there will be difficulty in placing catastrophe covers which come up for renewal from 1 April," says Mr Hady Wakefield, chairman of C. T. Bowring Reinsurance. A more general viewpoint, however, is that the lack of capacity will produce higher premiums, not absence of cover.

At the same time, the US catastrophe market is less than 0.5 per cent of US direct insurance. The LMEX market may be hurting as a result of two years of catastrophes but it is ultimately small in scale.

Difficulties facing the excess-of-loss syndicates in the 1990s are confined to a corner of the market, very unlike the impact on the UK insurance industry of the heavy US environmental pollution and asbestos claims in the 1980s.

NOTICE OF REDEMPTION

Prudential Realty Securities III, Inc.

11 3/4% Guaranteed Sinking Fund Bonds Due January 15, 1992
Cusip Number 990314 XA

NOTICE IS HEREBY GIVEN that, pursuant to Section 7 (b) of the Terms and Conditions of the above-mentioned Bonds and in conformity with the Fiscal Agency Agreement dated as of January 17, 1988 among Prudential Realty Securities III, Inc., Prudential Funding Corporation and The Chase Manhattan Bank (National Association) as Fiscal Agent, all outstanding Bonds will be redeemed on January 17, 1990 (the "Redemption Date") at 102% of the principal amount thereof (the "Redemption Price") together with interest accrued to said Redemption Date.

Interest on the Bonds to be redeemed will cease to accrue on and after the Redemption Date and on said date the Redemption Price will become due and payable. Payment of the Bonds to be redeemed will be made upon presentation and surrender thereof together with all coupons maturing subsequent to the Redemption Date at any one of the following:

| | |
|---|--|
| The Chase Manhattan Bank, N.A. Woodside House, Coleman Street London, EC2P 2AA, England | Branches of Citicorp, S.A. SUIZ Avenue des Arts B-1050 Brussels, Belgium |
| Chase Manhattan Bank, (Luxembourg), S.A. 8 Rue Fidele L-2336, Luxembourg-Grand. | |

Coupons which have matured prior to the Redemption Date should be detached and surrendered for payment in the usual manner.

PRUDENTIAL REALTY SECURITIES III, INC.
By: The Chase Manhattan Bank (National Association),
as Fiscal Agent

Dated: December 18, 1989

*No representation is made as to correctness of the Cusip Number after as printed on the Bonds or as contained in this Notice of Redemption.

£272m outflow from National Savings pool

By David Waller

THE OUTFLOW from National Savings continued last month, with depositors withdrawing £272.1m but paying in only £108.7m. This made a net outflow of £272.4m for November.

It is the fifth successive month that net outflows have exceeded £200m, reflecting public indifference to National Savings products combined with the Government's determination to repay public debt.

There was a net £11.6m repayment from the investment account in spite of a rise in the interest paid on that.

The rise in the interest on gross-paid accounts was effective only from the middle of this month.

Hanson wins radio franchise

By Raymond Snoddy

LORD HANSON, head of the Hanson Group, has won a commercial radio franchise at the second attempt.

The Independent Broadcasting Authority will announce formally today that Lord Hanson's Melody Radio has been awarded a licence to broadcast "easy listening" music to the Greater London area. Melody Radio competed this year for the new commercial classical music station.

The IBA was being criticised yesterday for not taking the opportunity to create a commercial classical-music rival, at least in London, to the BBC's classical-music channel, Radio 3.

The IBA yesterday insisted, however, that Melody Radio and Kiss FM had been chosen on the basis of their applications. The authority said that no particular categories, such as classical music, had been set aside for special treatment.

In the past year, the IBA has licensed more than 20 commercial stations, using existing legislation.

The new Broadcasting Bill is due to receive its second reading today. It will set up a new radio authority designed to create up to three national commercial networks and several hundred local and community commercial radio stations during the 1990s.

Italian International Bank Plc

US\$45,000,000
Subordinated Floating Rate Notes due 1996

In accordance with the provisions of the Notes, notice is hereby given that for the six month Interest Period from December 18, 1989 to June 18, 1990 the Notes will carry an interest rate of 8 3/4% per annum and the Coupon Amount per US\$10,000 will be US\$432.88

The Agent Bank
KREDIETBANK
S.A. LUXEMBOURG

RENFE

RED NACIONAL DE LOS FERROCARRILES ESPAÑOLAS
ECU 46,500,000
GUARANTEED FLOATING RATE NOTES
DUE 1994

for the six months
15th December 1989 to 15th June 1990
each note will carry an interest rate of 11 3/4% per annum and a coupon amounting to ECU 568.75

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Security complaints body

By Peter Marsh

PEOPLE who think they are getting a raw deal from MIS or MIS will from today be able to lodge complaints to a special tribunal that will henceforth rule on the various predicaments encountered.

Establishment of the tribunal is a result of the 1989 Security Service Act taking effect. The law's intention is to give a new statutory basis to the activities of the security services.

An tribunal to examine complaints will commence its work from today under the direction of Lord Justice Murray Stuart-Smith, the Commissioner appointed as responsible for the security service.

The tribunal may be contacted at PO Box 18, London SE1 0TZ.

Wool textiles set for export record

EXPORTS of wool textiles this year are almost certain to be a record, according to the National Wool Textile Export Corporation, writes Peter Marsh.

Earnings from overseas sales for the first 10 months came to £570m. The existing record is £613m for the whole of 1988 and exports this year are so far running at 12 per cent above last year's levels.

WE'LL MAKE YOUR PROPERTY ASSETS SWEAT!

A report by Reading University's Department of Land Management shows that British industry regularly fails to make proper use of property assets.

There is no strategy in many cases, vital information is frequently lacking and often there is no performance measurement.

Bidwells manages more than 2500 properties across the UK for many national names. We have developed a style of management that works property assets hard. Our professional surveyors are backed by one of the best computer property management information systems in the country - which we developed.

If you are a Director or Senior Manager responsible for property management, call Christopher Buxton for a free initial appraisal. He will send you a free copy of the Reading University report (normally £30) and our brochure "A Strategy For Your Property Assets".

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MANAGEMENT

The management environment

Knowledge is an unsettling thing

Michael Skapinker looks at how managers' work will alter in the 1990s as old rules no longer apply

The 1990s looks like being the decade in which managers need their subordinates more than their subordinates need them.

It is not just that skill shortages have blighted many areas of industry and commerce, turning employees into a scarce resource over which companies have to squabble. Nor is it just that companies will fail if they cannot find staff who are ready to take that extra bit of trouble, whether in raising quality, improving customer service or shortening product development times.

The more important reason why managers need their subordinates is that they can help them learn how to manage again.

As Rosabeth Moss Kanter of the Harvard Business School argues, the job of being a manager has undergone such enormous change that it needs to be reinvented. The change manifests itself in many ways, but the underlying cause is the same: for organisations to succeed, employees need to become increasingly knowledgeable and skilful. The more they know, however, the less easy they are to manage.

For example, successful organisations know that they need to forge closer links with their suppliers and customers. Not all those responsible for developing and deepening these links are senior members of the corporate hierarchy. Maintaining the links requires the co-operation of middle managers, as well as of salespeople, receptionists, telephoneists, transport and warehouse staff. These employees often and up knowing more about customers and suppliers needs than their superiors do.

In an article in the November/December issue of the Harvard Business Review, Kanter tells the story of a purchasing manager at a computer company whose superiors encouraged her to develop closer ties with suppliers. She learned a lot about the suppliers, but they also learned a lot about her. The result was that they were able to appraise her performance just as effectively as her superiors could.

Developments like these can be immensely threatening to senior managers. How do you know how well your staff are doing if they develop knowledge, skills and contacts which you don't have? How can you appraise performance if your customers and suppliers know more about your staff than you do?

Kanter says that in the past managers performed well by following set procedures. They did things by the book and ensured that their subordinates did the same. Now, however, the rule book is gone.

In the new corporation, managers must learn to operate without the crutch of hierarchy. Position, title and authority are no longer adequate tools, not in a world where subordinates are encouraged to think for themselves and where managers have to work with other

departments and other companies." The problem of managing knowledgeable employees has been discussed by Tom Lloyd and Karl Erik Sveiby in a book called *Managing Knowledge*. They looked particularly at the difficulties faced by companies which employ "knowledge workers", organisations like management consultancies, advertising agencies, newspapers, research laboratories and computer software houses. These organisations recruit people precisely because they are creative, irreverent and able to come up with new and unconventional answers. In short, they recruit people to break the rules.

Working with such people is often frustrating and maddeningly eccentric and simply just obnoxious." They could not, however, be treated as just another unit of production, he said.

The problem of managing difficult people has now spread well beyond the "knowledge sector". Indeed, it could be argued that we are all knowledge workers now. Several manufacturing companies are teaching their hourly-paid workers the techniques of statistical process control, thereby giving them direct responsibility for quality.

Triplex Lloyd, the UK engineering, building components and foundries group, has begun to identify shop-floor workers with management potential. It is convinced that its employees have talents the company has not previously recognised.

A recent report by the PA Consulting Group, which was published by the Department of Trade and Industry, warns that manufacturers must place greater emphasis on turning out products with a high "knowledge content", based on good design and using microprocessors and high-performance materials.

Employees manufacturing such products might not be as obnoxious as journalists, but they cannot be treated as mere units of production either. Neither management editors nor exhortation will persuade them to turn out products of the quality required. They have to believe in their company and its mission.

Nor can companies force their staff to treat customers properly. They can insist that they go through the motions of providing a decent service, but as anyone who goes into a supermarket or bank knows, employees have their own way of



telling customers that they don't really care.

Companies have, in the past few years, experimented with various ways of winning employee commitment. They have tried share options, profit-sharing, performance-related pay, quality circles and team briefing. The results, however, have been mixed. The problem with schemes of this sort is that they are difficult to set up and easy to undermine.

Many employees are cynical about such attempts to start off with. Their cynicism deepens if they suspect that employee commitment programmes are simply a screen for a management determined to hang on to the old way of doing things.

Office seating arrangements and where employees eat their lunch say more about what a company thinks of its staff than any number of profit-sharing schemes or corporate videos. It is difficult to win employee commitment at the best of times. It is harder still in an organisation which retains executive dining rooms and parking spaces.

Given that current changes are so difficult to deal with, many managers take refuge in the past, desperately attempting to shore up their crumbling authority. Faced with an organisation in which employees start to show initiative, threatened managers try desperately to keep them in line, becoming excessively authoritarian in their outlook. They begin to see employees as the enemy - people who are ungrateful for

everything their managers have done for them.

Others persuade themselves that people do not matter that much. They immerse themselves in other aspects of the business, like information technology systems or production techniques. They argue that they are running a business, not a psychotherapy practice; that their job is to make money for shareholders, not to run a social centre for employees.

It is a view which puzzles people like Akio Morita, the chairman of Sony, who has never been able to understand those western executives who believe that management is about something other than the management of people.

So how do you manage knowledgeable employees? With difficulty, say those managers who have tried. They point, however, to certain basic principles.

The first is to be consistent. If you believe that employees are your biggest asset, you have to demonstrate it in everything you do. Showing your people that you value them is a full-time activity. It cannot be confined to the annual Christmas party. That does not mean employees don't have to obey the rules or that they should not be held to performance targets. It does mean that managers should think about all the signals they send. There is no point wandering about talking to employees if you are prepared to listen to what they

Management abstracts

The logic of electronic markets. T.W. Malone + others in *Harvard Business Review* (US, May/June 89 (5 pages)). Examines the development of electronic markets, starting from single-source order-entry systems direct from customer to supplier via a terminal in the customer's premises, to networks which enable customers to access wide-area systems and compare and order offerings from competing suppliers. Discusses, quoting several US examples, the economic and benefits of this trend (which the authors see as irreversible).

A strategy for computer disaster. *The Executive's Journal* (US) Summer 89 (11 pages). Warns of the vulnerability to interference of distributed computer systems, and suggests that many companies' precautions are inadequate and that attitudes are too complacent; backs up the charge with survey data, listing some 50 types of access control with frequency-of-use data; believes that senior management (e.g. chief executive) must play an active role in installing proper controls.

Does your organisation need a mission? A. Campbell in *Leadership & Organizational Development Journal* (UK) Vol 10 No 1 89 (7 pages). Defines the content of an organisation's mission - purpose (why the organisation exists); strategy (describing the businesses and activities it wants to run); a set of values (helping underpinning management style, ethics and relationships); and standards of behaviour. Discusses why a mission is important (e.g. because it provides a link between behaviours, the organisation's values and employees' values) and its benefits, such as encouraging loyalty and commitment; describes how to create a sense of mission and communicate it to everyone in the organisation; provides a set of guiding principles, distilled from the approaches of companies like Marks and Spencer and British Airways. Identifies situations where a mission might be inappropriate, and offers a checklist of problems of defining a mission in a multi-business operation.

How do you know whether you're managing effectively or not? You employees can tell you. Those managers who are finding ways of managing their knowledgeable subordinates say they look for solutions in partnership with their staff.

Every few years, Allied Dunbar, the UK insurance and financial services group, asks a survey organisation to carry out a detailed poll of its employees. In 1987, the last time the survey was carried out, 86 per cent of employees said they thought Allied Dunbar was well-managed and 84 per cent thought that senior management was generally respected by the staff.

In a rapidly changing and highly competitive world, those sorts of results don't come as a surprise. But they're not a bad start.

Employees who take the trouble to make suggestions should be able to see results. If their idea is worth something it should be implemented. If it is not, they should be told why. Above all, everyone who makes a suggestion should be made to feel they have done something important.

Thirdly, managers need to look at ways of giving employees more pride in their work. Kanter argues that pride is often a better source of motivation than the traditional corporate career ladder and the promo-

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London, 22 & 23 January, 1990

This two-day conference will open with keynote addresses by The Rt Hon Norman Fowler, MP, Secretary of State for Employment and Mrs Vasso Papanetrou, European Commissioner for Social Affairs. The challenges for management of attracting adequate quality of qualified people in the next decade will be reviewed by John Banham, Director-General of the Confederation of British Industry; Tony Raban, Chairman of the Forum Européen de l'Orientation Académique; Professor Dr Matti Ojala, Senior Vice President of the Nokia Corporation and Ivan Yates, Deputy Chief Executive (Engineering) of British Aerospace plc. Professor Paul Lee Evans of INSEAD will speak on the challenges and opportunities of a pan-European market and how companies can make existing managers more European. The internationalisation of management will be discussed by Richard Noonan, Vice President, Industrial Relations, Ford of Europe and John De Loeuw, Managing Director of the Corporate Staff Bureau, Philips International BV.

COMMERCIAL AVIATION IN THE ASIA-PACIFIC REGION TO THE END OF THE CENTURY AND BEYOND
Singapore, 12 & 13 February 1990

By the year 2000 the Asia Pacific region is expected to be accounting for some 25% of the entire world air transport output, generating a massive growth in the entire air transport infrastructure of the region. This Financial Times conference brings together a most distinguished panel of speakers to assess this growth and examine the challenges and problems it will generate.

Contributors include: Lim Chin Beng, Sir Colin Marshall, Peter Sutcliff, Mitsunari Kawano, Dean Thornton, Louis Harrington and Cecil Rosen.

THE LONDON MOTOR CONFERENCE
London, 5 March 1990

Louis Lataif, President of Ford of Europe will deliver the keynote address at the 1990 London Motor Conference - the sixth in this well established series. Other contributors will examine the relationships between motor manufacturers and components suppliers and assess changing patterns in distribution, retailing and the aftermarket as the Single European Market draws closer. As in previous years, the conference has been timed to coincide with the Autopartac Exhibition at Olympia.

CAPITAL MARKETS WORKSHOPS
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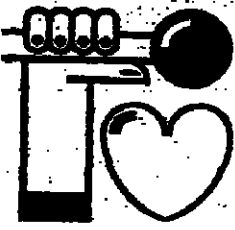
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regret to announce that owing to a lack of initial support for their new Environmental Fund, they have applied to the Securities and Investments Board to revoke authorisation of the fund. Accordingly, subscription money will be returned as soon as possible together with interest earned on deposit.

FINANCIAL TIMES SURVEY



The increasing number of old people in Britain will become one of the most searching

social issues during the next decade. Alan Pike examines the challenge that faces government and local authorities in coping with the heightened demand for care

New look at an old topic

MOST OF the political energy over the National Health Service and Community Care Bill, which received its second reading last week, will be devoted to the Government's proposals to reshape health care.

Of equal importance, however, is the Bill's strategy to set a new foundation for care in the community to cover a period during which the number of very elderly people in Britain's population will increase drastically.

By 2025 the number of people aged 85 or over, who are most likely to be disabled and have the highest demands for care,

will have increased by almost 50 per cent and will go on rising into the next century.

This growth in the very elderly population does not have to prove a problem, any more than old age itself should be regarded as a problem, but it calls for planning. It will lead to substantial increases in demand for both residential and home care at a time when other demographic changes will make the provision of this more difficult — a decline in the numbers of young people will create problems in the recruitment of nursing staff, while non-working women who contribute most informal care will be under growing pressure to return to the labour market.

In 1961 there were 5.5m people aged 65 or over in Britain. By 2025 this will have more than doubled to 11.3m.

An older population presents opportunities as well as challenges. Large commercial organisations are gaining a greater hold in the provision of residential care for the elderly, a sector once dominated by single owner-proprietors, showing growing recognition of the potential scope of this market.

A growth in building retirement housing for the elderly which took place during the



By 2025 there will be 11.3m people aged 65 or over in Britain — more than double the number in 1961

Care of the Elderly

1980s is being followed by developments such as PPP Beaumont's close care, which links the opportunity for people to buy their own property with the provision of nursing support from nearby PPP Beaumont nursing homes.

Wider commercial opportunities will arise from the increase in the numbers of elderly people, many of them affluent and with time to spare, in the population.

Travel, entertainments and health insurance are among sectors which will be presented with scope to develop new products. Packages to finance long-term care in old age are likely to be developed by the insurance industry.

But the Government made it clear in its white paper, *Caring for People*, published last month, that it also wants to see a greater private sector role in the direct provision of care for the elderly.

At present, this role is largely confined to the operation of residential and nursing homes. Until the mid-1970s, most residential care was provided in local authority homes — which went through a period of growth as the population began to age — and the private sector was confined to catering for those who could pay their own bills.

This has changed completely during the 1980s. A market survey published by Laing & Buisson, specialist health care publishers and consultants, shows that private sector provision now outnumbers public. There are an estimated 143,200 beds in private residential homes and 89,600 in private nursing homes, compared with a total of 215,400 in local authority homes and NHS long-stay hospitals. Voluntary organisations provide a further 50,400 beds.

The explosion in private sector provision was brought

about by the state using social security payments to enable people of limited means to stay in private homes. Social security funding of people in independent homes, which cost £10m in 1979, is now more than £1bn a year.

Apart from its cost, this method of funding created a "perverse incentive" for authorities to accommodate the elderly in homes, although the policies of successive Governments throughout the 1970s and 1980s have favoured people living normal lives in the community wherever possible.

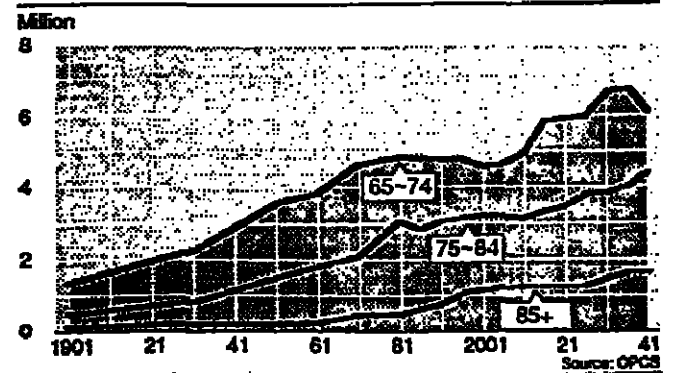
Under the reforms now before Parliament this method of financing will end — although the position of people in private homes when the changes come into effect in 1991 will be protected — and local authority social services departments will become responsible for assessing the care needs of each individual.

In future the authority, rather than the individual, will decide whether residential care is the most appropriate option. Money which would have been spent on social security payments will be transferred to local authorities, which will be able to choose whether to spend it on residential care or on improving support services for people in their own homes and local communities.

The decision to give local authorities the co-ordinating role in community care has been broadly welcomed, although the crucial questions of how much money will be available to finance the new system remain to be answered.

The Government has rejected the original recommendation of Sir Roy Griffiths, its health service adviser on whose report the proposals are based, that local authorities should receive separate, ring-fenced funds to finance com-

Great Britain population



munity care. Funding will instead be through the normal revenue support grant system, and critics are concerned that this will make it impossible to assess whether adequate funds are being provided — or whether money intended for community care is actually used for that purpose. The Labour Party intends to introduce an amendment while the Bill is before Parliament in an effort to ensure that community care funds are ring-fenced.

Local authorities will, in the words of the white paper, have "every incentive to make use of the independent sector" — there will be an actual financial disincentive for councils to accommodate people in their own homes, and unless this changes while the Bill is before Parliament it is certain to lead to a decline in local authority provision. Wirral Council on Merseyside has already considered disposing of its entire stock of old people's homes but, after local opposition, a working party is currently reviewing the question.

Councils will be encouraged to enter into contracts with private sector residential and nursing homes for the provision of care at agreed prices. The extent to which the private sector responds depends entirely on the value of the contracts. In recent years, many private and voluntary homes have found it difficult to accommodate elderly people who are unable to top up Department of Social Security income support payments with money of their own.

Laing & Buisson's review shows that only 28 per cent of nursing homes charge fees for shared rooms which could be met from social security payments alone. For single rooms this drops to 11 per cent while "in some areas of the country the percentages approach zero". The review also shows that, while demographic change and other factors should have generated an additional 11,500 private care home places in England in 1988-89, the actual increase was 30,000. In an atmosphere of uncer-

tainty over future levels of public funding, some private providers in a competitive market are likely to give priority to developing sophisticated facilities for the 40 per cent of elderly people in residential care who are in a position to pay their own fees.

The Government wants to encourage more private sector activity in the provision of day and home care facilities — the level of private sector interest will again depend on funding. Local authorities are, meanwhile, being encouraged to reorganise their traditional home help facilities to target assistance on priority groups who would otherwise have to enter residential care.

Whatever changes in the care of the elderly result from the reforms in the Bill, one fact is certain — the bulk of care will continue to be provided by relatives and friends. An estimated 6m carers provide this support on a regular basis and Caring Costs, a campaign supported by a number of charities, is pressing for them to receive an adequate independent income.

The increasing proportion of elderly people in the population will ensure that ageing remains a significant social and political issue into the next century. But, stressed Prof Anthea Tinker, professor of social gerontology at King's College, London, in her inaugural lecture last month, the growing number of elderly people was "as much a cause for celebration as for concern," and it was unhelpful to see older people as a burden on society.

She criticised the fact that old age is often projected in one of two extreme ways, either through stories of poverty and muggings or through images of hang-gliding grandees. "Older people have a great deal to offer. Not only have they lived through a most challenging period in history, they are today healthier, better educated, have a wealth of experience and should be regarded as a valuable resource."

The Third Age

On January 6 the Weekend FT will publish a special issue on The Third Age, containing features of particular interest to readers who have reached middle age and are seeking new interests and activities

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CARE OF THE ELDERLY 2

In-house care facilities a leading priority

Service for stay-at-homes

HOME HELPS and day care services are central to successful community care policy.

Given the choice, most elderly people prefer to continue living in their own homes whenever possible, and the increasing numbers of elderly people in the population will in any case make home rather than residential care a necessity for many. This means the provision of support services in and near the home will be one of the leading priorities in community care in the next decade.

Last month's white paper "Caring for People" noted that private sector involvement in the care of the elderly is at present largely confined to the residential care and nursing home fields. Non-statutory provision of other services were, said the white paper, less well-developed and the Government expects social services authorities to "explore ways of further stimulating private and voluntary provision of domiciliary, day and respite care wherever possible".

Some local authorities are already using non-statutory organisations to assist with the

Care given to people in their own homes accounts for around 10 per cent of local authority social services expenditure

provision of day centre facilities, although these tend to be voluntary organisations rather than private companies. Most of Norfolk County Council's day care facilities are provided in collaboration with the voluntary sector in church halls; sheltered housing developments are elsewhere. Wiltshire County Council has adopted a similar approach, with community development officers co-ordinating services at local level with voluntary organisations.

Care given to people in their own homes accounts for around 10 per cent of local authority social services expenditure, and this is an area



Helen Flatt: matches carers and clients

where councils are coming under increasing pressure to examine the quality and efficiency of the services they provide.

Mr Stephen Mitchell, of the Department of Health's Social Services Inspectorate, told a conference organised by the London University Age Concern Institute of Gerontology earlier this year that home care services in all local authorities visited by the inspectorate "remained trapped in a model of high coverage and low intensity service delivery". Increased resources were used to provide a similar service to more people, rather than targeting a different style and quantity of service at groups of people with greater needs.

In those metropolitan district councils inspected in 1987-88 coverage of the elderly population ranged from 2 per cent to 14 per cent, with 85 per cent of service users receiving home help services for four hours a week or less.

Three-quarters of the time of care assistants in two sample authorities was spent on housework, 10 per cent on companionship, 10 per cent on tasks outside the home and only 5 per cent on personal care tasks. "This distribution of

of clients who would otherwise be candidates for residential homes.

This shift towards providing home care services for more clearly identified priority groups, possibly to the extent of merging some home care and home nursing duties, is likely to increase in the 1990s. The extent to which the private sector will become involved in these activities will depend on the amount of finance available.

There has been a recent growth in companies providing home care services for people able to pay privately. Mrs Helen Flatt, a nurse, runs Care at Home, a Guildford-based care agency formed in 1986 which now provides day and 24-hour care on a national basis. The agency carefully matches carers and clients, and its carers will provide whatever facilities an individual elderly person needs, ranging from basic shopping and cooking to bathing, dressing and administering medication under approved supervision.

Care at Home charges its clients £5.22 per hour. Clients or their families have to meet

There has been a recent growth in companies providing home care services for people able to pay privately

these fees, although some can obtain support from the Independent Living Fund. "I believe our charges are reasonable compared, for example, to what many people pay to employ cleaners in their homes," says Mrs Flatt.

"But when people suggest that private companies should tender for public sector care work, they have to recognise that the level of funding available in the public sector is ludicrously low. The Government and public must appreciate that proper quality community care is not a cheap option."

Alan Pike

Alan Pike on the NHS switch to private sector homes

Partners in providing care

BARBARA CLIFFORD founded Storth House Care in Huddersfield four years ago with the help of £40 a week from the Government's Enterprise Allowance Scheme.

Since then it has grown from a 12-bed residential home into a £3m business with 84 beds. It employs 104 people full- and part-time, and further planned growth will take it to 500 beds in the next 18 months.

The speedy growth of Storth House has been in reputation as well as in size. This month the business entered into a pioneering agreement with Huddersfield District Health Authority under which Storth House will provide care for elderly NHS psychiatric patients in a new £500,000 purpose-built unit which is part of the development programme.

This is an example of the way in which the Government hopes its proposed health reforms will encourage public health authorities to enter into contracts with private sector providers which can offer more cost-effective facilities. Although the cost of providing care in Storth House will

exceed the normal levels of social security paid on behalf of elderly people in private sector homes, it will be considerably less than the typical National Health Service costs for keeping elderly patients in psychiatric hospitals.

Many health authorities are looking at the scope for partnership arrangements with the private sector, particularly if they are not only financially viable but enable elderly people to move from old Victorian institutions to more pleasant, modern nursing homes.

Takare, a publicly-quoted company providing long-term care for the elderly, has reached an agreement to build and manage two nursing homes for the exclusive use of East Suffolk Health Authority.

The homes, at Stowmarket and Ipswich, will have a total of 240 beds. Takare will provide the capital investment for the project, and the health authority will take all accommodation in the nursing homes under a 10-year contract worth £30m at current prices.

Takare already provides nursing home facilities for

other health authorities and charities, but the East Suffolk arrangement is the first time an authority has taken exclusive use of entire homes.

Mr Keith Bradshaw, Takare chairman, believes such contracts will become more common as health authorities begin to appreciate that private sector providers can offer good quality nursing home care and significant cost savings. He says the company is in other negotiations involving at least 1,000 beds which will be exclusively or substantially contracted to health authorities.

He believes the East Suffolk contract represents the culmination of Takare's planning. "I foresee a significant number of projects such as this as people realise the benefits they can provide in releasing health service resources for other pressing needs."

In a development being planned in the South West Westminister Health Care, another private sector provider of care for the elderly, will enter into a partnership arrangement with Plymouth

District Health Authority. The authority will close St Mary's hospital for the elderly, a 150-year-old former workhouse at Launceston, and rehouse its patients in a new nursing home being developed by Westminister Health Care on land next to the town's general hospital.

Westminister will meet the costs of designing and building the 107-bed nursing home, in which the health authority will lease 40 beds. The remaining 67 will be used by Westminister to provide private care for the elderly.

All existing St Mary's staff will be offered severance pay, and the opportunity to work for Westminister. The health authority and Westminister are considering arrangements under which the NHS would provide some services, such as occupational therapy and physiotherapy, for Westminister and Westminister staff would provide other services in Launceston general hospital. NHS doctors will remain responsible for the health care of the elderly people in the new Westminister nursing home.

About 6m people are carers

Relative savings of £15bn a year

THE SYSTEM of care for the elderly would collapse if all care had to be provided by statutory bodies or private companies.

Most care comes from relatives and friends of elderly and other dependent people. It is estimated that around 6m people are involved in the regular provision of care - with 1.4m of these devoting more than 20 hours a week to the task and carers organisations calculate that this is saving the state £15bn a year.

This year has seen a growth in a campaign to persuade the Government to put some of these "savings" in the form of improved allowances in the hands of people who look after relatives and friends.

Caring Costs, a campaign for an independent income for carers, has published the results of a census which showed that many carers find their own lives adversely affected by the pressures of caring. Four out of five people said they had financial problems as a direct result of caring. Many had been forced to give up work or at least reduce their working hours and forgo promotion prospects.

"Caring for a disabled, sick or frail person at home can involve sacrifices, stresses and strains," says Caring Costs. "It is clear that financial support for carers is woefully inadequate, so that for many carers poverty and financial insecurity are added to their other difficulties."

As an immediate programme of help for carers, the group is calling for:

- Invalid Care Allowance, currently £29.20 per week for those who qualify, to be paid at the same rate as retirement pensions;
- Further relaxation in the Invalid Care Allowance earnings limit, over and above a

| THE CARE SECTOR (number of places and annual market values at March 1988) | | |
|--|----------------|--------------|
| | Places | £m |
| Private nursing homes | 88,800 | 1,002 |
| Private residential homes | 143,200 | 1,123 |
| Total private supply | 232,000 | 2,125 |
| Voluntary nursing homes | 10,400 | 701 |
| Voluntary residential homes | 39,900 | 277 |
| Total voluntary supply | 50,300 | 978 |
| NHS long-stay geriatric | 49,100 | 828 |
| NHS elderly mentally ill | 31,000 | 523 |
| Local authority Part III | 136,300 | 1,070 |
| Total public supply | 216,400 | 2,421 |
| ALL SECTORS COMBINED | 448,400 | 4,524 |

Source: Laming & Bilsland

proposed rise from £12 to £30 per week;

• A flat rate allowance for all carers to cover extras such as higher transport, telephone and food costs.

Last year the Association of Carers and the National Council for Carers and their Elderly Dependents merged to form the Carers' National Association. As well as campaigning for better support for carers, this is actively developing local branches and groups to help relieve the problems of isolation which many carers suffer.

Ms Jill Pitkeathley, director of Carers, shares the disappointment of many organisations that the Government does not intend to introduce a specific ring-fenced funding

mechanism for community care, but will instead finance it through the general local authority grant mechanism.

"This will make it much more difficult to determine whether finance is adequate. But one of our hopes is that

the new arrangements may shift the financing emphasis in favour of carers, two-thirds of whom get no help at all at present.

A more sensitive approach to the needs of carers and involving them in the development of community care plans, says Ms Pitkeathley, could bring many people much-needed help without creating huge demands for extra resources. "There seems to be a temptation not to ask carers what help they need for fear that they are going to say they want two weeks off in every four. In fact, what many people would, desperately like would be a proper night's sleep once a week."

The Government, in the white paper Caring for People, recognises the great bulk of community care is provided by friends or family.

"The decision to take on a caring role is never an easy one. However, many people make that choice and it is right that they should be able to play their part in looking after those close to them."

One of the white paper's six key objectives is defined as making practical support for carers a high priority. "Assessment of care needs should always take account of the needs of caring family, friends and neighbours."

Alan Pike

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CARE OF THE ELDERLY 3

Old age does not inevitably mean poor health, says Lisa Wood

Recipe for staying active

SOUND health is more important to a happy retirement than piles of money in the bank, according to a recent survey by Scottish Amicable Life Assurance Society.

Six in 10 people feel sound health to be more important to a happy retirement than sound finances. Scottish Amicable concluded after conducting a survey of more than 400 retired people under 75 years of age.

The conclusion may seem rather facile. Poverty and ill-health are not unrelated and many old people's health problems are exacerbated by living in poor housing conditions and having low incomes.

However, old age itself does not inevitably mean poor health and dependency and, in an age when the elderly are living longer and community care is much wanted, the need for promotion of healthy lifestyles among the elderly is an increasingly important element in health care.

There are powerful reasons for increasing health promotion for older people, says Age Well, a campaign which seeks to promote health activities for, and with, older people.

Poverty and ill-health are not unrelated and many health problems are exacerbated by living in poor housing conditions and having low incomes.

Age Well, which was set up by Age Concern, said: "Being old isn't a disease, it's a natural process, the same as being born. The majority of elderly people live independently in the community. Most are keen to maintain an independent life. While acknowledging the growing number of frail elderly people in the population, it is important not to be alarmed by assuming that each individual will inevitably become dependent."

"Good health affects the quality of life for older people, and the extent of their independence and ability to pursue a range of activities, just as it does for other groups in society."

"Health" means a host of different things to various groups. For some old people it simply means freedom from chronic aches and pains. For others it is about taking greater control over their own lives - with self-sufficiency, mobility and the ability to learn new things. These issues are inextricably linked to fac-



Most elderly people are keen to maintain an independent and healthy lifestyle

tors such as basic services and facilities as well as society's attitude towards old people.

Health workers involved in promoting health and healthy lifestyles among the elderly agree that challenging negative stereotypes of old age is critical to the promotion of positive attitudes - and healthy lives - among the old.

Challenging ageism, like formal retirement ages, is part and parcel of this campaign. Recently, for example, the ending of age discrimination at work was called for in a petition to the Prime Minister, signed by more than 40,000 people.

The petition was promoted by the Association of Retired Persons which believes that challenging such forms of discrimination is an important part of promoting health in old age.

Mr Robert Rose, chairman of the association, said: "Health and the state of one's mind are inter-related. The ability of people to work longer is very important to their emotional stability - which is all part and parcel of being healthy."

People over 65, said Mr Rose, had a rate of suicide and clinical depression more than twice the national average. One factor in those statistics, said Mr Rose, could be that the elderly

have a self image of being worthless.

Mr Rose's organisation will next year press the European Commission to include an anti-ageist clause in its social Charter. "People should have more choice about when they retire," said Mr Rose whose organisation is independent of the American Association of Retired Persons - a very powerful lobbying group in the US.

Health and the state of one's mind are inter-related. The ability of people to work longer is important to their emotional stability

Offering the elderly more say in their own affairs is a key part of health workers strategy for promoting greater independence among retired people.

Many local authorities, for example, are now actively seeking to involve the elderly in decision making.

Exeter District Health Authority, for example, is involved in what it calls "locality planning" in its attempt to decentralise health service planning.

Penultimate word

From Mr H. Wolfson. Sir, I am a 93-year-old Scotsman ending my term in this small Israeli seaside town and was interested to read about your forthcoming survey on Care of the Elderly.

I live in a 3-star hotel which, unusually, has about half its rooms occupied by residents, all incidents. All old people's homes are given euphemistic names, such as Golden Age, Happy People.

I suggest the language needs a generic term for retirement homes and put forward the following:

Geratrrium: Greek geras, old age, Latin atrium, entrance hall or chief apartment of a Roman house. Penultimate: Latin, penes, almost, ultimis, last. The one before the last resting place. H. Wolfson, Hotel Topaz, Netanya, Israel.

Personal pension plans reviewed by Eric Short

Early starters gain security

THE TIME to start planning financial security for retirement is the first day of a working life.

This advice is not intended to be sarcastic or trite. It highlights the obvious: the earlier a person starts a savings scheme, the greater the amount accumulated to finance retirement.

In practice, it is extremely difficult for any person to do this by making their own arrangements. Young employees have enough calls on their pay - servicing a mortgage and meeting other family commitments - without having to consider retirement.

Besides, the state social security schemes and company pension schemes provide a means of imposing on employees an involuntary savings operation for retirement, thereby avoiding any decision about saving.

Employees start contributing to the state scheme as soon as they start work. With company arrangements, the employee joins a scheme usually soon after starting work and contributions are deducted at source.

At the moment, existing company schemes are standing up to the burdens imposed on them. But there are fewer new company schemes paying pensions based on an employee's final salary being established. More and more employees either have to make their own arrangements or are forced to rely on the state.

But such are the cutbacks in state provision that an employee who relies solely on this pension will have a bleak prospect in retirement.

Although the Government has introduced a variety of savings and investment schemes, the most convenient and tax efficient means of providing for retirement remains a pension scheme from a life company or other institution.

The new-style personal pensions, first issued in July last year, provide an ideal means of saving for retirement.

Contributions are paid out of gross income, investment is



Expert financial advice can guarantee security in later years

made in tax exempt funds, so the contributions are rolled-up gross and one quarter of the accumulated fund can be taken as a tax-free cash sum.

There is now a £50,000 limit on earnings out of which contributions can be made on a tax-free basis and this cap is revalued each year in line with price inflation.

But it will be many years before this cap will affect more than a small part of the employed population.

However, financial circumstances dictate that most employees are unable or are unwilling to start saving until later in their working life.

The later the start of a pension savings, the higher the contribution level needed to provide an adequate pension.

The Inland Revenue accepts this feature. It has a scaled contribution rate which can be invested in personal pensions from the basic 17.5 per cent of an employee's earnings up to age 35, rising to a top rate of 40 per cent for individuals aged 61 or over.

There are a variety of personal pension plans on the market from life companies, building societies and unit trusts. Employees wishing to make adequate provision for their old age, need to take expert financial advice.

But personal pensions are not the sole financial vehicles individuals wishing to save towards their old age.

The new-style Personal Equity Plans match every aspect of tax efficiency as a personal pension, except that contributions have to be paid

Voluntary Contributions or AVCs.

Employees interested in making AVCs have the choice of an in-house arrangement run by the company pension scheme or making their own arrangements through a Free Standing AVC from a life company or unit trust group, or a mixture of both.

The tax advantages of personal pensions apply to AVCs, but there are two drawbacks. First, contributions to an AVC arrangement are limited to 15 per cent of an employee's earnings, less contributions already paid to the main company scheme.

Second, the accumulated savings under an AVC arrangement must be used to buy a taxable annuity. The tax-free cash has to come from the mainstream company scheme.

So, employees in company schemes wishing to boost their capital at the time of retirement, rather than increase their income in retirement, need to look at other forms of savings.

Peps are the obvious choice for employees willing to invest in equities - either direct, or through unit trusts or investment trusts, or both.

For those employees wary of equities, the long-serving with-profit endowment will meet the needs of a reasonable investment return at little investment risk.

The whole concept of pension provision in the UK is centred on people who are employed or self-employed. No thought has been given to providing pensions for people who do not work.

Such people have to rely on their partner for their pension - a housewife, for instance, has to rely on her husband's pension.

Alternatively, they have to invest in less tax-efficient savings vehicles, if they have resources, or look to the inadequate supplementary benefits system, if they have little or no savings.

However, if children are willing to support their parents either before and/or after retirement, then this has to be paid for out of net income - surely against the spirit of the Griffith report on private care for the elderly.

Eric Short



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CARE OF THE ELDERLY 4

David Lawson investigates schemes for retirement homes

Sales rocket loses velocity

HOUSING FOR the elderly was one of the big commercial success stories of the Eighties. Suddenly, it was discovered that pensioners have money to spend and developers began to churn out purpose-built schemes ranging from intensive-care homes for the frail to estates planned with more tennis courts and pools than the average holiday camp.

Purpose-built homes for the elderly are not new. Local authorities and housing associations such as Hanover, Anchor and Orbit have a long history of providing groups of small flats centred on communal rooms and overseen by wardens. They recognised that the elderly often found it difficult to cope with large family homes once their children had left, particularly once frailty and illness set in.

Private developers showed little interest. The elderly might own a disproportionate amount of the nation's wealth but they were generally among the poorest sectors of society in terms of income and had relatively little to spare from their pensions for accommodation. Sales of retirement homes tended to be restricted to sea-

side cottages and Spanish villas. But a series of changes from the late-Seventies revolutionised this view. First, the Government urged a switch of resources into the private sector, much as it is encouraging privatisation of community health care today. That would have meant little on its own, but private pensions were beginning to raise spending power and, most importantly, property prices were beginning to soar again.

People who had bought homes for modest amounts many years before found themselves able to sell up for large amounts of cash. Many began to "trade down" to sheltered flats, often investing the surplus for income to supplement their pensions. Demand seemed assured. Public sector supply was dwindling at a time when the proportion of elderly people was projected to keep rising. More than 200 building companies jumped on the bandwagon, trailing the cost-tails of specialists such as McCarthy & Stone and Anglia Secure, which were producing the bulk of new schemes.

More than 40,000 private sheltered homes have been built, many of them since the mid-Eighties boom. The most

common pattern involves one-bed flats in two or three-storey blocks crammed on to a town-centre site close to shops and public transport.

But the range has expanded enormously over the past few years. Luxury schemes have evolved, such as the groups of cottages built by English Courtyard Association in a scattering of country towns and the spectacular grandeur of Roman columns and antique furniture offered by Regalian's Chartcombe House overlooking Poole.

McCarthy & Stone spread its wings to cover nursing homes at one end of the spectrum and leisure-intensive schemes at the other for "pre-retirement" buyers.

However, speed of growth brought inevitable problems. Some badly-planned developments produced a stream of complaints. Service charges grew into a hot political issue with accusations from MPs and welfare groups that elderly widows with little financial acumen were being exploited. Builders staved off threatened government controls by imposing a code of practice which warned novice builders that providing for the elderly was not a licence to print money. Developments should be on

level sites close to shops and public transport routes and service charges should be spelled out in detail before buyers made any commitments, said the new rules. The stricter regime of controls helped drive most non-specialists out of the market, but as soon as this problem had been solved, an even bigger one reared its head. Property prices began to crash, and sheltered housing has been one of the hardest hit areas.

Building rates have already been cut by 25 per cent to around 8,000 this year but more than half of those are still standing empty. Potential buyers cannot, or will not, sell their existing homes to "trade down", despite increasingly desperate measures by developers to pull in buyers. There is



Luxury retirement homes in Newbury, Berkshire

an element of choice because some elderly owners could find buyers if they reduced asking prices. But as one specialist builder says: "Why should they? This is their main asset and they are under no great pressure to move. They are aiming to wait out the slump, so these problems could be with us for some time."

Builders are trying everything in their power to keep sales ticking over. McCarthy & Stone and Anglia, as the biggest suppliers, naturally have the largest number of empty

homes to fill. They have already devised various schemes for floating or deferring increases in service charges. Now they have dreamed up a battery of incentives to attract buyers, mainly aimed at helping sell existing homes.

This shake-up is reducing the range as well as the number of homes available to the elderly. McCarthy & Stone has sold its nursing homes to BUPA in a bid to rationalise. Its ambitions for whole retirement communities on lines seen in the US are also being stymied,

with one scheme in Edinburgh already passed to another developer. The crisis has also given developers the opportunity to blame each other for making mistakes. Jim Ditheridge of Bovis Retirement Homes says too many schemes have been badly thought-out. They reflect what developers think buyers want rather than their real needs.

"Contrary to the typical image, lifestyle in retirement does not mean lonely hours spent knitting or staring at television," he says. Three times as many of his buyers had active pastimes, such as golf or swimming, rather than more sedentary hobbies. But they still want libraries, and most importantly, more room to entertain in bigger flats. Only half wanted the communal lounges which make up the heart of many sheltered developments and the vast majority would like two-bed flats.

McCarthy & Stone would not deny that there is a place for the active retired. In fact, it has been trying to stretch into the leisure-oriented market

with many of its developments. But the average person buying one of its flats is a widow aged 75 or more, who will be more inclined towards a small, neat home and a warden on call than a plethora of pools and tennis courts. Statistics also show that the biggest growth over the next decade will be among people aged 65-74, who will lead far more sedentary lives.

Releasing in general may be an alternative solution to buying, as the elderly seek to release capital for their children rather than transfer it into a new home. Some developers are already trying this out in homes left empty because of the sales slump. McCarthy & Stone, for instance, has helped set up a business expansion scheme catering for elderly owners.

The scope to serve a group that will make up almost a fifth of the population within a decade is enormous. But it will require sensitivity and careful planning to eradicate faults which have become so plain in the last 10 years.

HOME CARE

Catering for cash-poor owners

ONE SMALL fact often lost in the fury of sheltered-housing development over the past decade is that many elderly people either cannot afford to move or would prefer to stay in their existing homes.

Their reasons represent both the richest and poorest sectors of society, depending on their background. The richest slice, who own three-fifths of the nation's wealth, have tended to hog the headlines as builders and financial groups extrapolate the potential business in specialised homes and annuity sales from a stock of almost 5m elderly home-owners.

Certainly many pensioners are property-rich but cash-poor. Their homes have often soared in value while incomes remained relatively fixed. But many of those homes are still not worth the amount needed to trade for a purpose-built flat with a hefty service charge and ground rent. Every 10 years the government survey of UK housing conditions shows that the elderly live in the oldest and worst homes. The home improvement grant system is about to be revolutionised in an attempt to combat the fact that pensions are often too meagre to stop this rot through repairs and renovation, although welfare groups believe the red tape will deter many elderly owners.

The problem may, in fact, become worse as the right to buy council tenancies is extended to the elderly. The Government has been trying since 1979 to enable houses "suitable for the elderly and disabled" to be opened for sale at hefty discounts - partly because it knows these homes are among the oldest and most expensive to renovate. It was defeated by campaigners in the House of Lords until measures were pushed through in this year's Local Government and Housing Bill.

Thousands of homes could switch into private ownership. Mr Michael Howard, the Housing Minister, pointed out that 6,000 tenants had been refused permission to buy in the past three years because of the restrictions now overturned. But welfare groups fear many of these elderly people may find it hard to pay for repairs and upgrading normally handled by local authorities and new towns authorities. They

says most will already be on housing benefit, which should smooth the path to state aid. But the traumas of hefty paperwork will again prove a barrier to take-up of help.

More than 100 agencies are already involved in helping the elderly through stay-put and care-and-repair schemes, says Mr David Bookbinder of Age Concern. In fact, the number has grown so quickly that HASOP, the definitive guide to these services, is being set up to be extensively revised. But demand is even greater than supply. The irony is that many of the schemes, which bring together local authorities, housing associations, building societies and voluntary groups, are chary of publicity as they spin off to the elderly living in their own places.

The HASOP directory is aimed at potential organisers rather than consumers. "Most elderly people are still not covered," he said. "If, for instance, all the eligible owners in Lambeth heard what was available, the services would not be able to cope." These groups cannot provide financial assistance for repair and improvements, just advice on where to go for funding and a helping hand with the paperwork. They liaise with government departments and building societies on grants and possible finance, estimate the kind of repairs a house may need and organise the estimates and contracts, or advise on alternative types of accommodation such as sheltered housing. If possible, they try to cover their costs through a fee added on to grants, but much of their funding comes from government funding.

Ministers are very keen on agencies but are even more enthusiastic about private sector involvement. So, housing groups are being kept on tenterhooks over a monitoring report by Bristol University researchers due in the new year. Some fear funding could be reduced in favour of more local authority partnerships with the private sector.

The two leading sheltered housing builders have already

spread into home-stay services. Haven Services, the management subsidiary of Anglia Secure, is offering the same 24-hour monitoring service it provides to more than 100 private developments. Panic buttons and telephones will be linked into a centre which will assess an elderly person's needs from their records and call out emergency services.

The next stage will be a network of agencies to provide home nursing care. The scheme is obviously geared to local authorities and housing associations being urged by the government to use private agencies for community care. Home repair, financial and insurance services will also be part of the package evolved for sheltered-home buyers but spun off to the elderly living in their own places.

McCarthy & Stone management arm, Peverel, is also capitalising on the expertise developed in looking after more than 15,000 retirement homes. As a counterpoint to retrenchment by the parent group from areas such as nursing homes to overcome problems in the slack market, Peverel is branching out to link with Home For Life. The Rosebaugh subsidiary offers to buy the homes of elderly people, but as its name implies, allows them to remain there for their lifetime. This sort of scheme is becoming "common" among financial groups which offer ways of extracting capital for those people who want to live off the income or hand over the cash to children rather than bequeath their home.

Peverel will inspect and offer the same sort of 24-hour emergency monitoring services as its own tenants receive. "One of the main reasons why people move into sheltered housing is for safety and security," says Mr Nigel Bannister, the managing director. "We will now be able to offer this in their own homes." He also intends to branch out towards provision of medical services along lines suggested by the white paper. But Mr Bookbinder of Age

on repairs and other services. If an owner decided not to go ahead with building work, there would be no way the agency could recover its costs by taking a slice of the grant. That might mean charging up front for services, which would deter the very people they were aiming to help.

In the same way, private agencies could not provide home medical care unless the owners or their local authority had sufficient resources. Again, this would leave a "surplus of elderly without this care."

The Directory of Housing Agency Services for Older People (HASOP), price £8. Age Concern England, 50 Piccadilly Road, Mitcham, Surrey CB4 8LZ.

David Lawson

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FINANCIAL TIMES

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Monday December 18 1989

Labour's new democrats

BRITAIN'S Labour Party is changing from an organisation led by socialist romantics into something like the Democratic Party of the US. Under Mr Neil Kinnock the party has travelled a long way in this welcome direction, but it has not yet arrived. One big hurdle is its relationship with the trade unions. The result is that the bloc vote, which means the vote of union bosses, still dominates proceedings. At the same time, Labour policy is caught between policies the unions will accept and policies that Mr Kinnock and his colleagues perceive to be what most voters will stand for. Voters will be rightly suspicious of this aspect of the party until its structure is seen to involve an association with the unions as loose as, say, that between the Democrats and the American Federation of Labour-Congress of Industrial Organisations.

Events are propelling Labour in that direction. The recent deselection of Mr Frank Field at Birkenhead is only one of a series of deselections in which the 40 per cent of the vote reserved for trade unions has played a dominant part. Mr Field's case is complicated by the involvement of the far-left Militant Tendency; this alone is enough reason for Mr Kinnock to seek a solution that demonstrates that Labour is free of such infiltration. Mr Field is a politician of strong character and independent thought who is recognised as an asset to the party, in spite of the perhaps understandable irritation sometimes felt by some of his more orthodox colleagues. A way of overturning the Birkenhead deselection is therefore being sought. But the reinstatement of Mr Field would not be sufficient.

Moderates' fear

What is required is the abandonment of the 40 per cent rule and its replacement by candidate selection on the principle of one vote per local party member. Labour moderates fear that militants would find a way of taking advantage of such a procedure, perhaps by passing the local parties, but it is up to Labour to ensure that its party, and its rules, to ensure that genuine constituency majorities prevail. The same principle applies nationally. If

a proposal on candidate selection is to be put forward at the autumn conference next year, the opportunity should also be grasped to rid the party of the bloc vote in its entirety at all levels, including the conference itself. A compromise, reducing but not eliminating the power of union bosses, would be the worst outcome, for the moderating influence of the mainly right-wing unions would be lost, while the electoral damage caused by the trade union presence at conference would persist.

A step forward

Labour's policies on trade union legislation also require further work. One significant step would be taken at the moment by Mr Tony Blair, the party's new spokesman on employment. Using the European Commission's proposed Social Charter as a prop, Mr Blair said that the "crucial elements" underpinning both the charter and Labour's Policy Review are "their acknowledgement of the importance of enforceable individual rights; the belief that they are not incompatible but are complementary to collective action; and the ability to enforce these individual rights, when necessary, against employer and trade union." This emphasis on "the individual rights of people at work" leads Labour to favour a right to join or not to join a trade union. The pre-entry closed shop is abandoned.

Mr Blair also highlighted Labour's insistence on a right to strike, and on the protection of lawful strikers from dismissal. The key concept is "lawful." But what about wildcat strikes, fines on trade unions, sequestrations, and secondary picketing? The argument that the balance of power between management and unions is the central issue was abandoned and replaced by an individual rights approach in Mr Blair's speech yesterday. The Labour Party will benefit if he develops that thought, and casts aside the fine compromises contained in the policy review. Tory union legislation, including an extension of the Undergrowth's Northern line in south London and a possible light railway in the west. Mr Parkinson has deferred decisions on such projects, but his discussion paper claims that "public transport improvements are unlikely to achieve major reductions in road traffic and congestion." So it would be unwise to expect much joy.

Mr Parkinson's lack of vision

IF THE PROBLEM were not so serious, one would be tempted to howl with laughter. Car usage is expected to more than double in the next 35 years, yet Mr Cecil Parkinson, the Transport Secretary, argues that already chronic traffic congestion can be cured by preventing cars stopping on priority routes, raising parking fines, improving signposts and other, trivial improvements in "traffic management." He knows that environmental considerations rule out a significant increase in road capacity, yet he illogically opposes any attempt to reduce demand for scarce road space.

Mr Parkinson thinks he can control congestion in London by establishing a 300-mile "red-route" network of priority roads. Stopping and loading on the red roads would be severely restricted. A traffic director would be appointed to ensure the "coherent development and operation" of the network. Higher parking fines would be levied and traffic wardens would be given enhanced powers to authorise removals and wheel clamping.

Engineer's approach

A wheeze such as red roads is exactly the kind of solution likely to find favour at the Department of Transport. It has always adopted an engineer's approach to traffic problems. In the years when public money was plentiful, it sought a cure for supply/demand imbalances in the construction of new roads. Unable to do much building in the austere 1980s, it has laid increasing stress on technological solutions such as traffic lights which respond to traffic density. It is now keen on developing in-vehicle electronic routing systems to help drivers evade bottlenecks.

Traffic flow management of this kind may help at the margin. But any easing of congestion is likely to be short-lived. The reason is that if road speeds increase even fractionally more people will use their cars. Those who place great faith in red routes should take a look at the M25 motorway during rush-hour. The road is already scarlet, clogging, leading and parking have always been prohibited on motorways. But this does not prevent long

tailbacks, which are caused by nothing more complex than excess demand for road space. There are two ways of alleviating traffic congestion in London. The first is greatly to improve public transport in the hope that fewer people would then want or need to use their cars. Consultants commissioned by the department to investigate solutions to specific bottlenecks did indeed recommend significant improvements, including an extension of the Underground's Northern line in south London and a possible light railway in the west. Mr Parkinson has deferred decisions on such projects, but his discussion paper claims that "public transport improvements are unlikely to achieve major reductions in road traffic and congestion." So it would be unwise to expect much joy.

Price mechanism

The second and potentially more powerful remedy is to use the price mechanism to influence demand for road space. In deciding when and where to use their cars, motorists take account only of costs and benefits to themselves. The introduction of road pricing would achieve a permanent improvement in traffic flow by making motorists take account of the external costs (in the form of congestion and pollution) they impose on others.

Mr Parkinson has ruled out that it would unfairly price poorer drivers off the roads. This is nearly as lame an excuse as the department's objection that it would be "hard to determine the exact area to be charged." In any market prices bear more heavily on the poor than the rich. But this is an argument for welfare payments not for the Soviet-style queuing that presently occurs on UK roads. In fact, if road pricing was accompanied by investment in public transport, the really poor - those who are dependent on unreliable buses - would benefit considerably.

Overseas experience suggests that road pricing is a practical possibility. Labour Party politicians seem closer to accepting the logic of this policy than Mr Parkinson.

Martin Wolf examines Poland's ambitious economic stabilisation plan The thorns that crown the struggle

Now on the verge of agreement with the International Monetary Fund on a tough stabilisation programme, the Solidarity-led Government of Poland is taking on the hardest possible task: to break the spiral of inflation as a precursor to an exceptionally ambitious programme of economic reconstruction. Every step will be difficult, but the first three months of 1990 will be the hardest of all. Those few months will make or break the attempted reform and, in all probability, the Government.

For the Government's supporters - on the basis of the results of the election last June, the overwhelming majority of the population - the hardships to come are the thorns that crown years of struggle. Ironically, the hardships will be greater than in neighbouring like Czechoslovakia and East Germany, because of the irresponsible policies adopted by the Communists in the past two decades, in their vain effort to procure the acquiescence of a restive population. Poland today echoes Argentina six years ago. In December 1983 the world watched with pleasure as Mr Raul Alfonsín became the democratically elected President of debt-laden Argentina. Like Poland, Argentina had experienced more than 40 years of inward-looking, state-led industrialisation; like Poland, Argentina had seen the cessation of borrowing to an economic collapse between 1979 and 1982, which was the economic fuse for the Solidarity explosion and subsequent introduction of martial law in 1981.

Martial law stabilised the economy only briefly. Soon wages were allowed to rise once more. The national supply doubled between 1982 and 1986; rose by 33 per cent in 1987 and then by 63 per cent in 1988. The latter increase accommodated an 84 per cent increase in wages, well ahead of open inflation of 60 per cent. Inflation led to a decline in the desired holdings of money and gave rise to a shortage of assets (apart from the dollar) - a flight into goods. With real wages rising as well, queues grew longer and the people more restless.

Then, during 1988, the Rakowski Government embarked on the political equivalent of "going for broke." The general government budget was moved from a rough balance in 1988 (according to the official figures) to an expected deficit of 5,000bn zloty for 1989, virtually all monetised. Until the summer, the growing inflationary pressure was largely repressed. But in August the flood gates opened, with a six-fold increase in food prices and inflation jumping to 39 per cent for the month.

The Solidarity Government no longer has to agonise over how to deal with the monetary overhang. The choice has been made - and it is for open inflation. Since the Soviet reform seems to be bogged down, if not sunk altogether, by the inability of President Gorbachev's team to deal with this point, the Polish Government has some reason to feel grateful for the suicidal policies of its immediate predecessor.

Swift action is now essential. Without a halt to hyper-inflation the budget deficit cannot be eliminated - because of the effects of inflation on the real value of even a few months lag in revenues - and the monetary expansion can also not be stopped. Swift action is politically necessary as well. The Government will never find it easier to impose corrective austerity than now, when it can blame everything on its predecessor. It also needs swift success, as proof that things can be changed in Poland, after years of half-hearted reform.

The Government has radical plans for economic liberalisation and reconstruction. But these will be pipe dreams if the economy is not stabilised and soon. Poland stands on the brink of a true hyper-inflation, with prices rising in the four months from July to November at a rate of 5,800 per cent a year (40 per cent a month). No market economy, least of all one as fragile as that to be created in Poland, can function in these circumstances.

There were three stages in the rake's progress that brought Poland its present hyper-inflation. The first was the attempt by the General Government of the 1970s to try the acquisition of a sullen population by borrowing abroad. The legacy is Poland's unpayable convertible currency debt of about \$40bn (\$24.9bn), more than half of gross national product. The cessation of borrowing to an economic collapse between 1979 and 1982, which was the economic fuse for the Solidarity explosion and subsequent introduction of martial law in 1981.

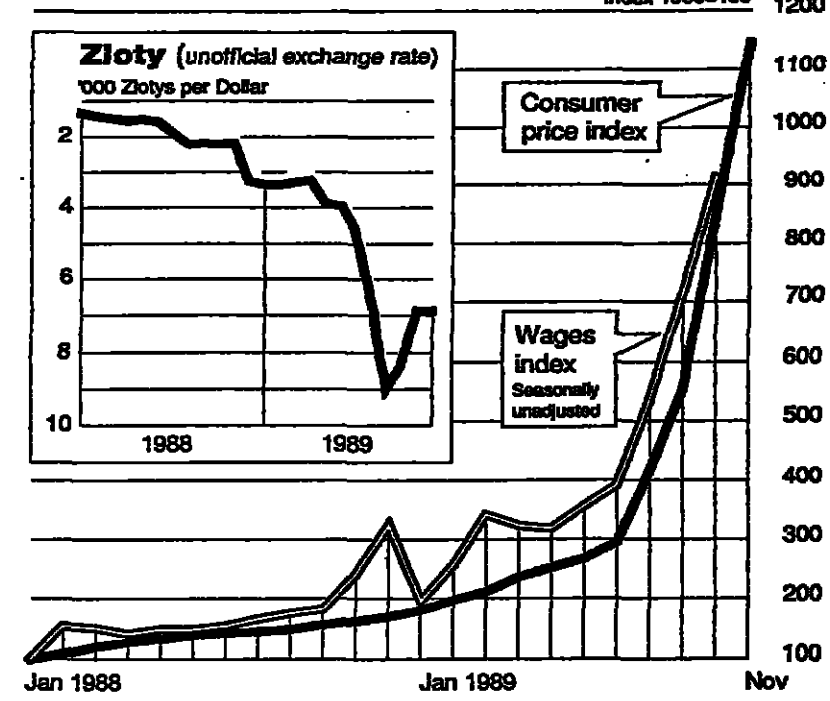
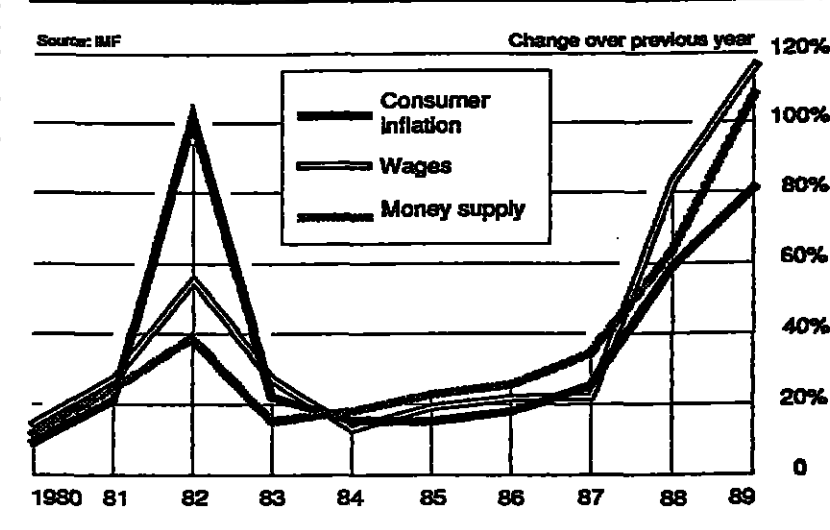
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The Polish path to hyper-inflation



● The budget will be balanced and government borrowing from the banks will cease.

● To achieve a balanced budget, subsidies will be eliminated. The price of coal, Poland's dominant energy source, is to rise fivefold. The removal of subsidies and price controls on other goods will double consumer prices in the first quarter of the year.

● Monthly rates of interest are to be raised to 30 per cent, with the aim of offering positive real rates of interest.

● The official rate for the Polish zloty is to be devalued by two thirds and brought closely into line with the free market exchange rate, as foreign trade controls are dismantled and limited convertibility introduced. The new rate is to be "managed", not fixed, though the Government hopes to hold it for six months.

● There will be prohibitive taxation of excessive wage increases. Wages in January will be kept from rising above the September level by more than 80 per cent of price inflation between September and December (which implies a modest increase in January itself). The Government is hoping to keep monthly wage increases between February and early summer below a fifth of the rate of inflation in each of the preceding months.

In the case of Poland, the arguments for a strict incomes policy during the disinflationary stage are strong. Polish enterprises are neither profit maximising nor competitive. Their managers have no incentive to hold the line on wages, at least before bankruptcy, but that is a threat of little potency in light of their past experience. Furthermore, the corrective price rises are intended to lower real wages. If wages follow higher prices, Poland would experience either a spiralling hyper-inflation or a huge increase in unemployment.

It should also not be forgotten that the reduction in real wages is more apparent than actual. Goods were either unavailable at the supposed prices, at least without queuing (itself part of the price), or paid for indirectly by the arbitrary exactions of the inflation tax.

The case for a fixed exchange rate is at least as strong. The dollar is the king of Poland. A network of official dollar shops sells western goods at prices westerners would envy. Holdings in official dollar accounts amount to around \$6m, while some informed observers believe that total dollar holdings are far larger. In such an economy depreciation increases the effective money supply pro rata. Furthermore, people will be enticed back to the zloty only if persuaded that it is as good as the dollar.

In the event, the Government appears to have decided in favour of a strongly damped wage inflation, rather than a wage freeze, and against a fixed exchange rate. In both respects, but especially on the exchange rate, the Government appears to have gone against the original advice of the IMF. Both decisions are understandable, but to embark on speedy disinflation with neither a fixed nominal wage nor a fixed exchange rate may leave the pilot

Pain without success would be the worst possible outcome, for Poland and for the West as well

with one anchor too few.

In making this decision, the Government will have been influenced by the rather modest funds available to it as short-term backing for the stabilisation programme. It is hoping to raise \$750m in standby credits from the IMF next January. In the meantime a bridging loan of \$500m is apparently to be made available from the central banks of the developed countries, while a number of western governments have announced contributions to a \$1bn stabilisation fund. In addition, the European Community pledged Ecu 360m (\$360m) in food aid this year and Ecu 200m for next year.

Will this prove sufficient? The amount of aid must be enough to persuade the Government to risk boldness, while not so much that it feels able to avoid that risk. The Polish programme is bold. If implemented in full, it should - with luck - prove bold enough. The question is whether the aid will be sufficient to overcome the political obstacles to implementation. Pain, without success, would be the worst possible outcome for Poland - and for the West as well. If the West must stand by Poland this time, Mr Mazowiecki faces a far greater challenge: to avoid being Poland's Alfonsín.

Alexander's next move

Now that Eddie George has the deputy governorship of the Bank of England, speculation turns to who will be the next Governor.

The present one, Robin Leigh-Pemberton, is doing a second term which expires in mid-1993 and which he is determined to see out: no question of early retirement. So the decision is some way off. Moreover, there will be a general election by mid-1992 at the latest, and that could confuse the outlook still further.

Still, nothing stops the City from speculating. Assuming that there are no political upsets, the obvious contenders are headed by Eddie George himself. But the history of deputies moving up to the full governorship is scanty. Only the now Lord O'Brien of Lodbury has managed it in recent times, and the previous deputy, Sir Kit McMahon, failed to get it, prompting his departure to the Midland Bank.

George could, of course, grow in stature in the job as his immediate predecessor, Sir George Blunden, has done. But at the moment his specialisation in monetary matters, though impressive, is a handicap because it seems to narrow his range.

Other candidates exposed to conventional speculation are Sir David Scholey, chairman of Warburgs, and David Walker, chairman of the Securities and Investments Board, both of whom still look clearly in the running. Scholey's name has been around for a long while and he is only 54. Walker might not have gone to the SIB, if it ruled out a future at the Bank.

But if you had to place an outside bet and one that might stand the test of time, there is some talk of Lord Alexander of Weedon, the new chairman of the NatWest Bank, a post which he took with some Bank of England prompting.

Three years from now, Alex-

OBSERVER

ander will have a lot of financial experience under his belt, in addition to his qualifications from the Bar and the Takeover Panel. He also emanates that aura of soundness that is looked for in a Governor. He is a Conservative, but that would not necessarily stop a Prime Minister Kinnock appointing him.

As a very, very outside bet, under a Labour Government, try Lord Donoghue, the former policy adviser to Prime Minister Callaghan.

Poor Plymouth

Newcastle on a Saturday afternoon: cold, wet and windy. Do not believe that a great deal of progress has been made with the inner cities. And if you want to see a real jungle of a traffic system, try the road networks on both banks of the Tyne.

At the central station there was a notice saying that the local football match had been cancelled because St James's Park was waterlogged. The visitors were Plymouth Argyle, not a club, I imagine, with a great deal of money to spare. There was something curiously old-fashioned British in their having made the longest journey in the second division, possibly in English league football - from Plymouth to Newcastle - only for the match to be off in Plymouth. I gather, the weather was even worse.

Salary stakes

The mortgage market may be sunk in gloom until such time as the Chancellor decides to pull down interest rates, but the mortgage companies now seem to be pulling ahead of City merchant banks in the salary stakes.

At National Home Loans, the first and largest of the



"We're only giving citizenship to those who can afford personalised car number plates."

"new wave" mortgage lenders, Richard Lacy received \$425,000 last year, according to the group's annual report published last week. That puts him well ahead of the \$298,000 paid to George Mallinckrodt, chairman of Schroders, or Sir John Baring (of That ilk), and a hair's breadth beyond John Craven at Morgan Grenfell who was paid \$222,573.

"I assume that I am being paid more than some merchant bankers," says Lacy. "But some are also getting more than I do." He says that salaries at National Home Loans are assessed by a remuneration committee, which takes into account such matters as a deferred bonus for the previous year's performance and success in setting up new businesses, as well as making an above-expectations profit of \$38m and boosting the group's earnings per share by 16 per cent.

Nevertheless, a pay increase of around 60 per cent must seem generous to Lacy's former colleagues in the plodding world of the building societies,

which he left in the mid-1980s to build his own new-style housing finance empire.

The chief executive of Alliance & Leicester, successor to the Leicester Building Society where Lacy cut his teeth, earned a mere £105,000 last year. Even among the clearing banks, the best paid directors of Barclays and National Westminster earned only £215,000 and £235,000 respectively.

Great cranes

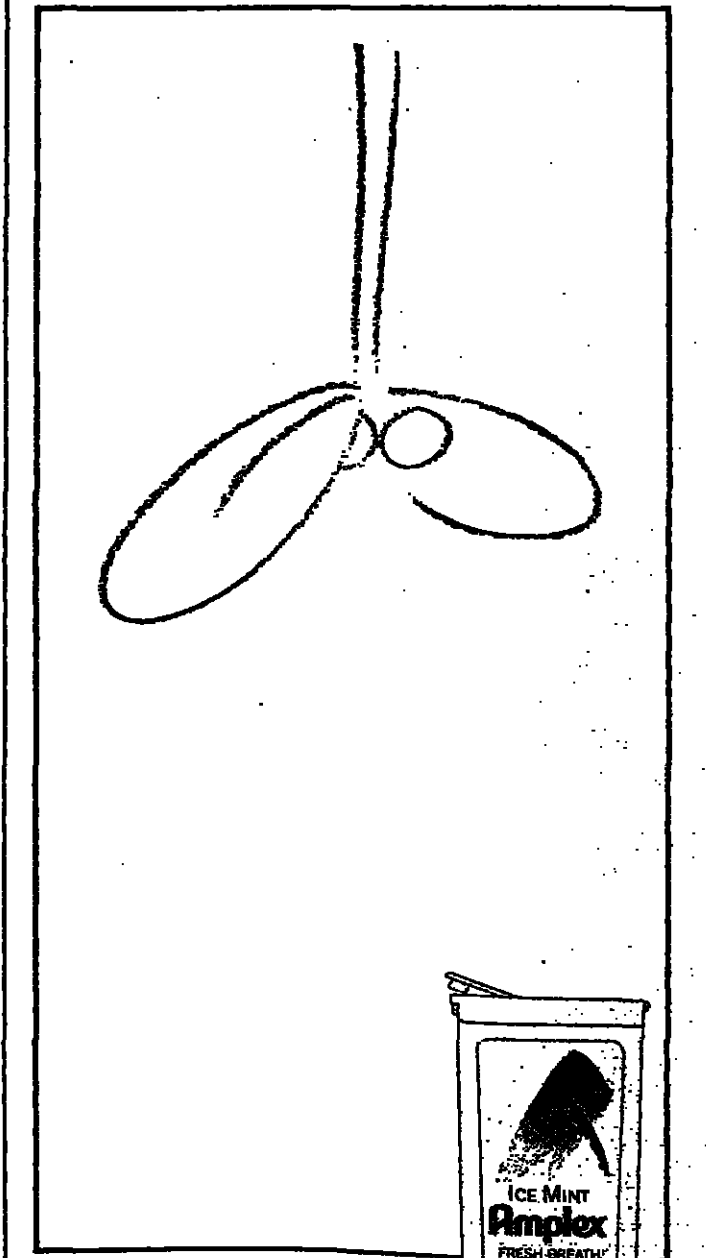
Possibly because of a competition organised by the Financial Times, there has been a wonderful display of illuminations around the City part of the Thames in the last few weeks. The competition is for the best-dressed crane and the construction companies have risen to it splendidly.

Some nights, however, some of the lights are out. This is not because the companies are saving money on electricity. There has been a warning from the Health & Safety Executive that while "the illumination and the decoration of cranes brings a splash of festive colour to city skylines... this must not be done in any way that could increase wind loadings on cranes and endanger their stability."

Since the cranes survived the storm on Saturday night, they can almost certainly survive the competition. The results will be announced later this week.

Sound advice

From the staff magazine of a Bristol company: "I often wish I could go back in time and meet great men whose work I admire, but I wonder if I would be able to rise to the occasion. For example, my favourite composer is Franz Schubert, but what would I say to him?" How about: "Take me to your leader."



DON'T GET A COMPLEX,



Milton Friedman argues that pegged exchange rates inevitably turn minor problems into major crises

The case for floating rates

Discussions of the prospects for a monetary union within the Common Market have generally assumed the difference between two superficially similar but basically very different exchange rate arrangements.

One arrangement is a unified currency: the pound sterling in Scotland, England, and Wales, and at an earlier date, in Ireland as well; the dollar in the 50 states of the United States and in Panama.

A slightly more complex example is the Hong Kong dollar much earlier when it was unified with the pound sterling by means of a currency board that was ready to convert the one into the other at a fixed rate, keeping in reserve an amount of sterling equal to the sterling value of the outstanding Hong Kong dollars. That is again the situation since the currency reform of 1983, when the Hong Kong dollar was linked through a similar mechanism with a US dollar.

Further back in time, that was also the situation under the late 19th century gold standard, when pound, dollar, franc, Mark, were simply different names for specified fixed amounts of gold.

Pressure to use monetary policy for domestic purposes will from time to time be irresistible

The key feature of a unified currency area is that there is at most one central bank with the power to create money — "at most" because no central bank is needed with a pure commodity currency. The US Federal Reserve System has 12 regional banks, but there is only one central authority (the Open Market Investment Committee) that can create money. Scotland and Wales do not have central banks. When Hong Kong unified its currency with the dollar, it left open the possibility of giving the currency board central bank powers, and, before the Tiananmen Square episode in China, the Hong Kong authorities were contemplating introducing changes that would in effect have converted the currency board into a central bank. One of the few good effects from what happened to China has been to demolish that project.

With a unified currency, the maintenance of fixed rates of exchange between different parts of a currency area is strictly automatic. No monetary or other authority need intervene. One pound in Scotland is one pound in Britain, plus or minus the huge costs of shipping currency or arranging bank transfers — just as under a late 19th century gold standard the rate of exchange between the dollar and the pound varied from \$4.8665 only by the costs of shipping gold (yielding the so-called "gold points"). Similarly, 7.8 Hong Kong dollars is essentially simply another name for one US dollar, plus or minus a trivial amount for transactions costs. It requires no financial operations by the Hong Kong currency board to keep it there other than to live up to its obligation to give 7.8 Hong Kong dollars for one US dollar and conversely. And it can always do so because it holds a volume of US dollar assets equal to the dollar value of the Hong Kong currency outstanding.

An alternative arrangement is a system of exchange rates between national currencies pegged at agreed values, to be maintained by the separate national central banks by altering ("co-ordinating" is the favourite term) domestic monetary policy appropriately. Many proponents of a common European currency regard such a system of pegged exchange rates (the EMS) as a step toward a unified currency. I believe that is a grave mistake. In my opinion, a system of pegged exchange rates among national currencies is worse than either extreme: a truly unified currency, or national currencies linked



by freely floating exchange rates. The reason is that national central banks will not, under modern conditions, be permitted to shape their policies with an eye solely to keeping the exchange rates of their currencies at the agreed level. Pressure to use monetary policy for domestic purposes will from time to time be irresistible. And when that occurs, the exchange system becomes unstable. The pegged exchange rates can be maintained for a time by governmentally arranged capital flows, by foreign exchange controls, or by restrictions on international trade, but by now there is ample evidence that these are only temporary expedients and generally lead to the conversion of minor problems into major crises. That was certainly the experience under Bretton Woods. Even in its heyday, exchange rate changes were numerous and, when they came, often massive. The system lasted only so long as the US, first, followed a moderately non-inflationary policy and, second, was willing to be passive with respect to capital movements as well as exchange controls imposed by other countries. That has been equally true of the

repeated monetary arrangements in the Common Market: the European Payments Union, the snake, the current EMS. None has been able to avoid exchange crises and exchange rate changes and several have simply broken down. The current EMS has been working reasonably well because Germany has been willing to play the role that the US played under Bretton Woods: pursue a moderately non-inflationary policy, and tolerate capital movements and foreign exchange controls imposed by other member countries.

Many observers give the EMS credit for enabling its members, notably France, to reduce inflation in recent years. No doubt the French anti-inflationary policy did gain greater credibility from its membership in the EMS, that is from its tie to the relatively stable German Mark. However, the decline in inflation was a worldwide phenomenon, by no means limited to members of the EMS.

In my view, the explanation is linked to the Bretton Woods. That led to the adoption of a world monetary system that has no historical precedent. For the first time, so far as I know, in the history of the world, all major currencies are pure fiat currencies, not as a temporary expedient but as a permanent system expected to last. The countries of the world have been sailing uncharted seas. It is understandable that in the first decade of that voyage all sorts of things might happen and, in particular, a worldwide outbreak of inflation did occur. That worldwide outbreak of inflation discredited the simple-minded idea of any long-term trade-off between inflation and unemployment, reduced the fiscal benefits from inflation, and increased the public's aversion to inflation. It became politically profitable for countries to follow policies consistent with a sharp reduction in inflation. That occurred in the EMS, but it also occurred in Japan, in Britain, in the US and throughout much of the world other than the basket-case countries. Two recent episodes illustrate by contrast the difficulty of relying on pegging one currency to another as a way to achieve disinflation. The first is Chile, which pegged its currency to the US dollar in the late 1970s to promote the disinflation in progress. Unfortunately for Chile, the US dollar shortly embarked on a sharp appreciation against all world currencies. The result was disaster: serious economic decline, indeed depression, the complete loss of credibility of government monetary policy, and the removal from office of those who had engineered the peg. In 1985, I believe it was, Israel adopted identically the same policy for the same reason and pegged her currency to the US dollar. The result was a great success because the dollar was poised for a sharp devaluation. The identical policy was utter disaster and shortsightedness in the one case;

far-seeing wisdom in the other. Recent British experience offers another cautionary tale about the risks involved in pegging one currency to another.

A truly unified European currency would make a great deal of sense. But to achieve it requires eliminating all central banks in Europe, if the unified currency is a pure commodity currency, or all except one, if the unified currency is a fiat, or partly fiat, currency.

If that one were to be a current central bank, the obvious choice would be the Bundesbank, which has been the dominant bank in the EMS. That would require eliminating the Bank of England, the Bank of France, the Bank of Italy, and so on, or converting them into administrative branches of the Bundesbank. A possible alternative is the Bank for International Settlements, which would require eliminating the Bundesbank as well. It is hard to regard any of these possibilities as a serious option — except perhaps if there were a monetary crisis of a severity that fortunately seems highly unlikely.

A truly unified European currency requires eliminating all central banks in Europe

The hope that a system of national central banks linked by pegged and managed exchange rates can prove a way-station to a truly unified currency seems to me an utter mirage. It will be no easier to abolish the central banks when such a system is in operation than before it starts. Similarly, the prospect of a consortium of central banks operating as a unit, mimicking a single central bank, strikes me as equally far-fetched.

Nearly four decades ago, I spent some months as a consultant to the US Marshall Plan agency, analysing the plan for the Schuman Coal and Steel Community, the precursor to the Common Market. I concluded then that true economic unification in Europe, defined as a single relatively free market, was possible only in conjunction with a system of freely floating exchange rates (I ruled out a unified currency on political grounds, if my memory serves me right).

Experience since then has strengthened my confidence in that conclusion, though it has also made me far more sceptical that a system of freely floating exchange rates is politically feasible. Central banks will meddle, always of course with the best of intentions. None the less, even dirty floating exchange rates seem to me preferable to pegged rates, though not necessarily to a unified currency.

The author is Senior Research Fellow of the Hoover Institution, and Professor Emeritus of Economics at the University of Chicago

LOMBARD

The magic of unfree markets

By John Plender

WHEN THE PUNDITS come to pass their verdict on the prospects for the 1990s, they will draw justifiable comfort from the fact that the world economy is much healthier than it was at the start of the decade. Much less reassuring is that policy-makers are setting out for the year 2000 with a bundle of options and nostrums that look little different from the intellectual baggage with which they confronted the 1980s.

The sheer scale of the policy failure in eastern Europe is such that it makes western mistakes look petty by comparison. Yet by any less dismal yardstick the economic policy failures in the West have been substantial. Take, for example, the consequences of liberalisation of most financial markets of 1980s nostrums — in currency and financial markets.

The appeal here appears to be largely confined to Anglo-Saxon countries. But this has not deterred the Anglo-Saxons from ill-considered attempts to impose deregulation on their trading partners. First there was Donald Regan in the early 1980s, urging the Japanese when he was at the US Treasury to liberate capital flows on the assumption that it would somehow help reduce the US trade deficit with Japan. When Japanese savers were offered an overseas alternative to low domestic returns the resulting capital outflow exacerbated an existing currency banking and securities market was used to correct policy failures in the US. Credit controls mitigated the inflationary consequences of holding down Japanese interest rates to support the dollar.

Undermining the cartels and throw away the credit controls and you bring back unmitigated Anglo-Saxon policy chaos. The eastern Europeans who are now treading the corridors of the Japanese ministry in droves have recognised as much. They know that the Marxist-Leninist version of state communism has failed; but unlike free-market western politicians, they also see that the corporate communism of modern Japan has been the real miracle of the 1980s. When will the Anglo-Saxons twig?

move is inspired by a remarkably insular vision. After all, the larger Anglo-Saxon economies are scarcely attractive models. They all have trade deficits, which is partly a consequence of liberalisation; their financial markets are thoroughly unstable; their corporate sectors are constantly subjected to external shocks and disruptive takeovers; and their individualistic commitment to free markets often stands in the way of social cohesion.

The Japanese, in contrast, rig their markets very thoroughly. Like the Germans, they confine competition to those sectors of the economy where they believe it to be beneficial and then ensure that it is truly ferocious. The non-competitive elements of the insurance, banking and securities market was used to correct policy failures in the US. Credit controls mitigated the inflationary consequences of holding down Japanese interest rates to support the dollar.

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LETTERS

Working practices and wage inflation

From Mr Sushil Wadhvani. Sir, Michael Prowse (December 4) notes that the shift in the balance of industrial power in the 1980s has led to important changes in working practices, but has had little effect on wage inflation. The situation has long puzzled me. It would be nice if your readers could shed some light on it. The facts suggest that there has been greater organisational change in unionised establishments in the 1980s,

but next to no change in the union/non-union wage differential. This is surprising, for, if unions are weakened, you would expect that they would prefer to give way a little on both work practices and wages, instead of conceding a lot on work practices, and nothing on wages. (Survey evidence shows that in some cases a rise in wages has been a necessary feature of deals to do away with restrictive working practices.) We need to explain this

behaviour if we are to fully understand wage inflation. Mr Prowse attributes the high wage inflation of the 1980s to the fact that much wage bargaining is decentralised. It may be that increasing decentralisation during the decade contributed to wage inflation. None the less, the low inflation and low unemployment records of some countries with decentralised wage bargaining systems — for example the US, Switzerland and, possibly, Japan —

should make us wary of simple generalisations. I have discussed the union/non-union wage differential conundrum with several colleagues. Tentative explanations have been advanced, none of them wholly satisfactory. Perhaps your readers — especially those with actual experience — can do better. Sushil Wadhvani, Centre for Labour Economics, London School of Economics, Houghton Street, WC2

Incompatible methods of acquisition accounting

From Mr Martin Walker. Sir, Graham Stacy and David Tweedie argue in your pages (December 7) that acquired goodwill should remain as a permanent asset in the balance sheet until its value is seen to have permanently diminished. This approach will hardly ever be logically compatible with the conventional method of acquisition accounting and the conventional accruals-based interpretation of earnings as defined in Statements of Standard Accounting Practice 23 and 2 respectively. Under the conventional method of acquisition accounting, the purchase of a subsidiary is treated just like the purchase of any other asset; that is, the price of the acquisition is matched against the financial benefits generated by the acquisition. Under the assumption that the incremental net cash flows generated by the acquisition are both permanent and reasonably constant, the Stacy and Tweedie treatment of acquired goodwill yields the "correct" measure of earnings, provided one also adopts the

convention that the initial outlay on acquiring goodwill is to be amortised against the undiscouted future benefits generated by the acquisition. However, the assumption that the stream of benefits will be permanent will typically be very unrealistic and the convention of matching outlays against undiscouted future benefits has little theoretical support. The only firms likely to benefit from the Stacy and Tweedie approach are the large acquisitive companies which figure among the clients of large auditing firms. If one modifies the Stacy and Tweedie approach by matching according to discounted future benefits one finds that about four fifths of the goodwill would be written off by the end of 10 years using a cost of capital of about 20 per cent. Martin Walker, Centre for Empirical Research in Accounting and Finance, Department of Accounting and Finance, University of Manchester, Manchester

The Fimbra story

From Mr Christopher Price. Sir, Your leader (December 12) noted the early retirement of Fimbra Chairman, Lord Elton. You found it "disturbing that a body which has been set up to promote the protection of investors should have been put under such pressure by vested interests within the industry." You then use the episode as an excuse for calling into question the whole process of self-regulation as established under the Financial Services Act 1986. You cannot and must not deduce that member dissatisfaction with Fimbra equates with a reduction in consumer protection. The FSA does remain controversial, but current frustrations within Fimbra stem from protection which is misplaced, rather than excessive. A cumbersome weapon designed largely by amateurs and fired by an army of lawyers and bureaucrats has failed to give most consumers protection. In areas in which they are most vulnerable, Mortgage related "rip off" continue with little or no restriction. So do the activities of high-pressure salesmen who work mostly for direct selling, unit-linked insurance companies.

Meanwhile the main impact has been upon independent financial advisers who have to contend with a rule book of such size and complexity that technical breaches are almost impossible to avoid. Far too much of it has little to do with consumer protection. In some areas the attention of a vast details would be farcical, if it were not backed by a small army of compliance officers obsessed with such vital matters as the size of the Fimbra logo on a member's business card. Herein lies the source of frustration which has exploded beneath Lord Elton. The recent administrative/managerial fiasco involving FI insurance was nothing more than the issue which united enough Fimbra members to construct a detonator. I know of no one who wishes to see a reduction in the level of consumer protection and it is wrong for you or anyone else to argue that Lord Elton's imminent departure provides an excuse for even contemplating more regulations. Christopher Price, Price Gardner & Co. Ltd, 16/17a Old Bond Street, Bath

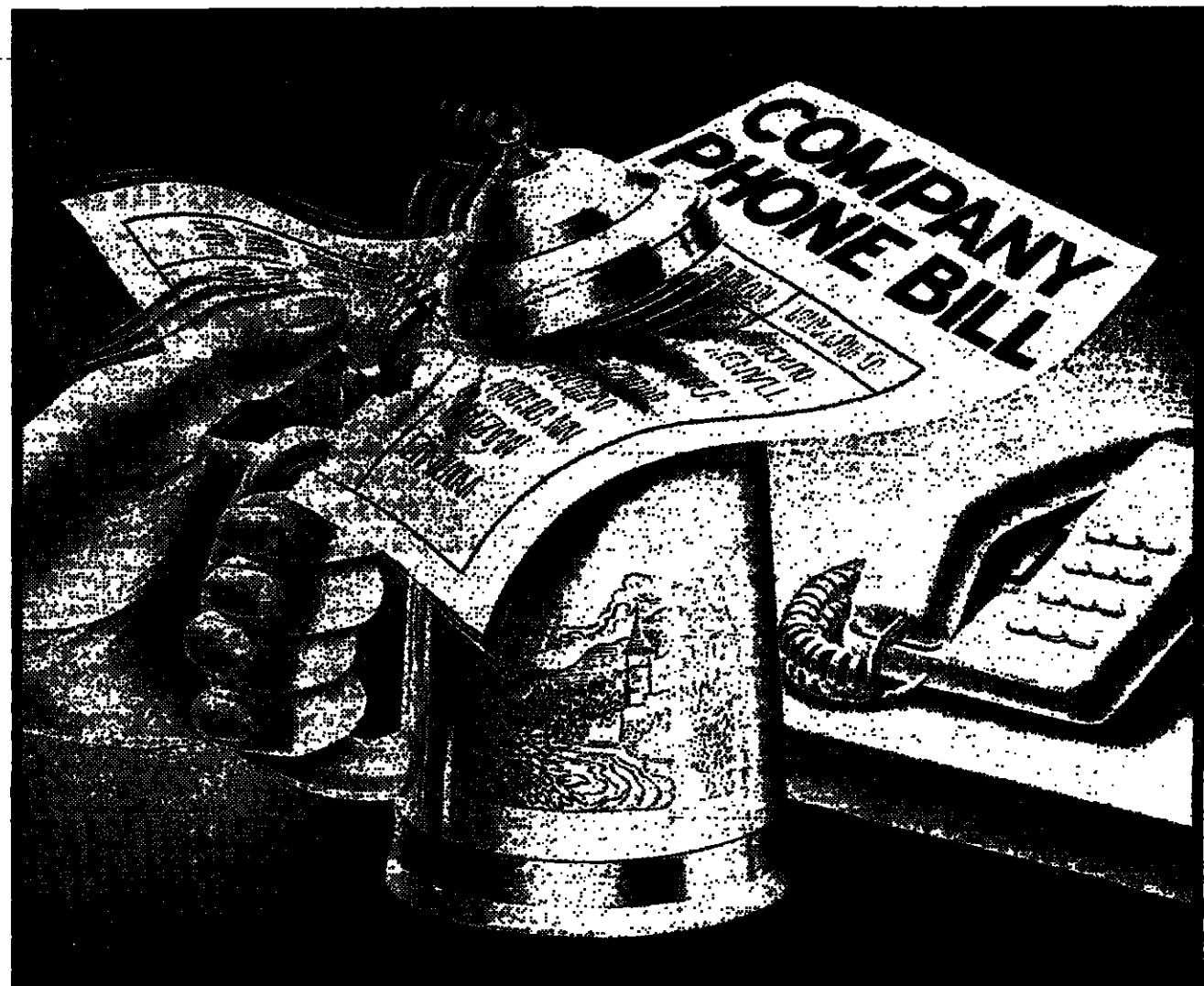
Europeans are not all Thatcherites now

From Mr Peter Wood. Sir, Michael Prowse's common sense (December 15) in pointing out that liberated eastern and central Europeans are not necessarily endorsing capitalist values is more than welcome. In recent years I have been a frequent visitor to East Germany and have conversed with individuals at all levels everywhere in the country. They invariably say: "our preoccupa-

tions here are entirely different from those of the West Germans." Not for nothing have the more perceptive writers on East German issues underlined the significance of the East German's sobriquet of *die bessere Deutschen* — because of their lack of bombast and inability to worship material success and their corresponding intensity on family unity, education and more inward

values. Sectors of the West German university establishment (especially the medical faculties) concede that education in East Germany, based on chalk-and-talk, is frequently much better than it is in West Germany. None the less, I believe Mr Prowse understates the difficulties of achieving any kind of permanent and effective transition from state planning in central Europe. Evidence from

the Soviet Union suggests that Mr Gorbachev's rapid and sometimes conflicting reforms (in the energy sector, for example) have created virtual chaos. These, inefficient but well-understood procedures are being replaced by systems that neither ministries nor enterprises can operate. Peter Wood, Newbold Farm, Dunthorpe Abbots, Cirencester



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FINANCIAL TIMES

Monday December 18 1989

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Janet Bush on Wall Street Securities industry in doldrums

ON OCTOBER 13, Mr Craig Drill who runs a hedge fund in New York, was in Burlington Vermont and had lunch with Mr George Ewins, a veteran salesman for Merrill Lynch.

Returning to Merrill's offices at around 2 o'clock, Mr Ewins revealed that Burlington was about to get its own home-grown hedge fund.

A local minister, he said, had proved himself to be a very successful small growth investor. The portfolio he ran for the church was up by more than 40 per cent so far. Mr Drill replied, only half-joking: "If a minister is leaving the church to set up a hedge fund, we are definitely at the peak of the market."

He looked at his watch - it was 2.10 on a sunny autumn day in Vermont. Over the next hour, the Dow Jones Industrial Average dropped 190 points, its second worst day in history.

The moral of the tale may, however, not be the temptation of a man of the cloth. The enterprising minister in Burlington, like so many millions of savvy small investors around America, will probably live to invest another day.

Events like the mini-crash of October 13 are much more keenly felt in the skyscraper wasteland of Lower Manhattan's financial district.

As of December 13, the Standard & Poor's 500 Index was up around 26.6 per cent for the year, the best performance since 1975 when it gained 31 per cent and this was with the benefit of coming out of a bear market.

Despite these returns - remarkable in the context of a slowing economy and the widespread view that corporate profits have peaked - Wall Street ends 1989 in a sorry state. Here are a few leading indicators of its fragile health.

Two seats on the New York Stock Exchange were sold on October 11 - before the mini-crash - for \$425,000 and \$420,000, the lowest prices for four years.

It is not just the securities industry which is in the doldrums. On the New York Mercantile Exchange, which has become another things popular crude oil futures contract, seat prices have lost 40 per cent of their value since May.

Traders attribute this not only to sagging volume but also to the Government's investigation into trading practices on futures exchanges in New York and Chicago.

Profits generated by the Government securities operations of the 44 designated primary dealers in the first eight months of this year were only one third of those made in the same 1988 period.

Drexel Burnham Lambert, which will by its own admission probably only break even this year, directed its top producers to accept partial payment in its own junk bonds and suffered the humiliation of seeing Standard & Poor's cut its rating on Drexel's commercial paper to A-3 from A-2.

The two major US rating agencies - Standard & Poor's and Moody's - have not seemed so threatening for a decade.

Moody's told Shearson Lehman Hutton a few weeks ago that its commercial paper had been put under review for a possible downgrade because of concerns about the company's capital. This warning led to last week's announcement by Shearson and its parent company American Express of a capital infusion of around \$370m. There is also talk of an agreement with Moody's about an aggressive cost cutting plan.

Thousands pay tribute to Sakharov

By Quentin Peel in Moscow

TENS of thousands of Soviet citizens were queuing in a bitter snowstorm in Moscow last night to pay their last respects to Dr Andrei Sakharov, father of the Soviet human rights movement, as his body lay in state in the House of Youth.

In an extraordinary outpouring of emotion and political protest, queues five abreast stretching for a mile or more forced the Soviet authorities to abandon all hope of keeping the tribute to just four hours yesterday afternoon.

The mourners represented the whole spectrum of unofficial (and official) Soviet society, united in a demonstration which could yet mark the beginning of mass popular protest in the country.

The Soviet authorities have been making urgent plans for adequate policing of Dr Sakharov's funeral today, to be held in the huge Luzhniko sports stadium but which may be unable to hold crowds popular forecast at anything from 100,000 to more than 1m.

There was a possibility last night that they might be forced to postpone the event, to allow the huge crowds to file past the body of the man who is credited first as father of the Soviet atom bomb and later as father of the dissident movement.

The spontaneous demonstration, held in total calm and dignity, brought thousands of people not only from all parts of the capital, but from across the Soviet Union, to pay their respects. Many had some personal contact with the Soviet academician who fought the authorities in many cases of political persecution and bureaucratic high-handedness.

Others came simply to express solidarity with a man who, even when physically exhausted by harassment and six years of exile in the town of Gorky, returned to Moscow three years ago to lead the most radical liberal reformers demanding faster perestroika.

"When I heard the news of Sakharov's death, I fell as if my own defender had died," Dr Natalya Yarosheva, a Moscow doctor, said. "As long as he lived, I was confident he would speak out on behalf of myself and every common person."

Officialdom was represented by Academician Yevgeny Zriakov, a candidate member of the Politburo and chairman of the funeral commission, who was one of the first to stand as a guard of honour beside Sakharov's body.

He was followed by other leading members of the Congress of People's Deputies, such as Mr Boris Yeltsin, Academician Yevgeny Veikhov, and Academician Roald Sagdeev.

The official obituary in Pravda, the Communist Party paper, paid tribute to his "deep humanitarian convictions," but glossed over his passionate human rights campaign, for which he was labelled a traitor and a slanderer during the rule of Mr Leonid Brezhnev.

and replacing it with a trimmed-down intelligence corps and anti-subversion team. The official ADN news agency said the coalition government of the reformist Prime Minister Hans Modrow took the widely-anticipated decision last Thursday.

Mr Gysi also called for an end to military parades and the dropping of a uniform that resembled that worn by the Wehrmacht in the last war. "A simple and practical uniform should be introduced which does not arouse the wrong memories. And as for goose-stepping, we should bid farewell to inglorious Prussian traditions," he said to loud applause.

He also struck out at the excessive competitiveness associated with East German sport. "We see competitive sport as important, but no longer the cultural achievement of our country, and recommend it should be promoted according to social means - but not elevated to a question of national prestige."

On security, Mr Gysi said the National Defence Council should be abolished and the Defence Ministry reorganised. Shortly after he finished speaking, the Government announced that it would be disbanding the feared security police service - the Office for National Security, or "Stasi"



Muscovites place flowers under a portrait of the late Dr Andrei Sakharov, the human rights campaigner, on Puskhkin Square, often the scene of dissident demonstrations

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British Land's choicest deal

THE LEX COLUMN

British Land's choicest deal

You must go back to the fracas over the Burton share options to find the last time institutional investors, voiced as much discontent, as some express now over Mr John Riblat's unbundling of British Land. If his scheme is voted down on Thursday, the result will not simply reflect the long list of what institutions such as Postel see as flaws in the plan. It may also be due to the take-it-or-leave-it attitude of British Land and its adviser S G Warburg. On Friday, they appeared to rule out even the possibility of postponing the deal.

The perceived flaws start with the arguably excessive £15m annual fee payable to New British Land, the new property developer-trader formed to sell off the old British Land portfolio. They proceed via the fact that NBL is getting 233m of British Land's assets at what looks like a 12.5 per cent discount. The nub of the problem, however, is that so much of the shareholder value to be released from British Land's portfolio will end up capitalising what some see as a private venture for Mr Riblat and associates. That is not how Warburg would put it. But the fact that Mr Riblat's investment group will get 51 per cent control of New British Land for five years, plus their generous equity incentives, shows why some institutions interpret it that way.

There is still plenty of room for debate but the indications so far are that Warburg has misjudged shareholder sentiment. And if the deal is worth only 40p-45p per British Land share, against its 500p of net assets, as the market seems to think, it does not in any case achieve Mr Riblat's prime objective of eradicating the traditional property sector discount.

GM-Saab
Volvo shares jumped by 14 per cent last week on news that it had sorted out its disastrous diversification moves of the early 1980s. So the surprise announcement that rival Saab-Scania had rid itself of its major problem area by offloading a half share in its loss-making car business on General Motors is equally good news.

Admittedly, a share price which has risen by a third over the last six weeks has probably already discounted a lot, and some may quibble with the price GM is paying. Saab is bigger than Jaguar, yet it is being sold for less than half what Jaguar extracted from Ford. However, Jaguar was not losing SKR2m a year, and is a far better brand name. It is very

THE DILEMMA facing the British Government over Hong Kong will be deepened today by a survey showing that less than one-third of the colony's professional staff intend to stay there after it reverts to Chinese sovereignty in 1997.

The survey may seriously underestimate the problem, because it was carried out before the Tiananmen Square crisis in June, since when the number of people trying to leave has risen sharply.

In the UK, Mr Francis Maude, the Foreign Office minister, yesterday gave a clear signal that the Government would press ahead with plans to give a limited number of Hong Kong residents the right of abode in the UK - despite strong opposition from within the Conservative Party.

The Government believes that giving senior administration and business figures access to the UK will help restore confidence in the colony - and need not necessarily lead to a large-scale inflow of Hong Kong Chinese into the UK. Conservative critics oppose any large-scale relaxation of immigration laws.

The Government is expected to announce in the House of Commons this week its plans for granting the right of abode. Broad decisions were taken before Conservative backbench opposition became most visible, but final decisions have still to be made.

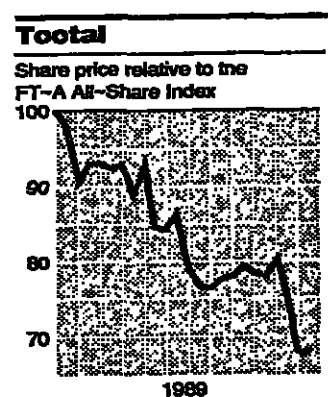
Mr Maude said Britain was committed to delivering a "package of assurances" to Hong Kong. Speaking on BBC Television, he said: "The purpose of this is not to bring people here but to anchor them in Hong Kong." He hoped to convince Tory rebels that changes would not boost immigration into the UK but deter it.

He repeated Britain's determination to repatriate Vietnamese boat people in Hong Kong - another policy intended to boost confidence in the colony. But, referring to last week's involuntary return of 51, he dismissed accusations of ill-treatment. "There is no force used, there is no force threatened," he said.

The Pope, who rarely criticises the actions of governments, yesterday described the decision to repatriate the Vietnamese as "grave" and said he was very concerned about the fate of thousands of refugees in the colony.

Proposals to give passports to Hong Kong residents would be aimed at persuading Hong Kong's most valuable professional people, civil servants and entrepreneurs to stay. Government officials yesterday said that even if legislation was required, it would be some time before it was brought before Parliament - it was too early to begin calculating the strength of opposition.

Any scheme is unlikely to have much effect on next year's brain drain from Hong Kong which the Government expects will rise to 55,000 people from this year's 45,000.



It will provide GM with extra capacity to assemble its own vehicles, but Sweden is hardly the most obvious site if all GM wants is extra European car production. And while everyone accepts that it is cheaper for a major to buy into the luxury car market than start from scratch, the combination of a 50-50 joint venture and the Saab name does not sound the most effective solution for a company that is in a hurry to get more heavily involved in the upper end of the industry. For a start, GM will have to stem Saab's losses, pretty smartly, or its own shareholders could start getting restive again.

On the other hand, the combination of loss elimination, a SKR6.8bn improvement in Saab-Scania's liquidity and a potential capital gain equal to more than half last year's group profits should be good news for Saab-Scania's share price, especially if it flushes out a predator.

Hotel prices
The North-East of England must not be as depressed as it sometimes sounds if the Gosforth Park Hotel on the outskirts of Newcastle is valued more highly than the luxury St Moritz Hotel overlooking New York's Central Park. Admittedly, the Newcastle hotel might not have gone for such a high price if it had been owned by Mr Alan Bond who is rather strapped for cash. Nevertheless, last week's transactions underscore the continued surprising buoyancy of UK hotel prices, in sharp contrast to general UK property prices.

Another sign of the strength of demand is that investors still seem prepared to pay a premium, rather than a discount, for a portfolio of hotels. Mount Charlotte, for example, recently paid nearly six times annual turnover, 26 times pre-interest profits or £145,000 a room, for the Thistle chain. Presumably, this is because the brand name, reservation systems etc, are thought to be worth something.

However, if the deal had been done with borrowed money, it would mean that all Thistle's rooms would have to be let every night of the year and customers would have to pay £50 a night just to cover the interest bill. It is the sort of crude equation which should make investors nervous.

It is one thing for a hostile bidder to try and renegotiate the terms, but this was an agreed bid where management submissions to the MMC and seemed committed to playing a

E Berlin and Bonn in joint call for caution over unification

By Leslie Collitt in East Berlin

A JOINT call for caution over moves towards the reunification of East and West Germany came yesterday from the two countries' heads of state.

The call came after Mr Richard von Weizsäcker, the West German President, held an impromptu round of talks with Mr Manfred Gerlach, the East German head of state, and Mr Egon Krenz, the Prime Minister, in the building in Potsdam where the two nations' post-war fate was decided.

Following the 30 minutes of talks, which were the latest in an accelerating series of bilateral meetings, both Mr von Weizsäcker and Mr Modrow emphasised that their respective allies in Nato and the Warsaw Pact must be able to rely on them.

The West German President said moves towards German unity must be in step with those towards European unity. "It is in both our interests that our neighbours, such as Poland, should be reassured that the coming together of the two German states should give them cause for concern about their territory," he said.

World Bank urges wider strategy for debt relief

By Stephen Fidler in London

THE World Bank today calls for a broadening of the international debt strategy to include debt concessions for highly indebted countries such as Poland - which owe large sums to government creditors.

The publication, World Debt Tables 1989-90, the Bank says: "Some of the middle-income countries that have severe debt servicing difficulties and that are largely indebted to official creditors may also need concessional reschedulings... the official international community may need to consider the problems of these countries further."

This would include Poland, about three-quarters of whose debt is owed to official creditors, and Egypt, regarded as severely indebted.

Governments of industrialised countries have conceded concessional debt relief to the poorest African countries, but have resisted extending this to middle-income countries.

However there is a growing view that attempts by Poland to transform its economy would fall if the governments - which when grouped together are known as the Paris Club - insist on the country repaying its debts to them in full.

The publication, which reflects the views of the Bank's economics department, suggests these countries are one of a number of groups which have fallen through the cracks of the new debt strategy.

and replacing it with a trimmed-down intelligence corps and anti-subversion team. The official ADN news agency said the coalition government of the reformist Prime Minister Hans Modrow took the widely-anticipated decision last Thursday.

Mr Gysi also called for an end to military parades and the dropping of a uniform that resembled that worn by the Wehrmacht in the last war. "A simple and practical uniform should be introduced which does not arouse the wrong memories. And as for goose-stepping, we should bid farewell to inglorious Prussian traditions," he said to loud applause.

He also struck out at the excessive competitiveness associated with East German sport. "We see competitive sport as important, but no longer the cultural achievement of our country, and recommend it should be promoted according to social means - but not elevated to a question of national prestige."

On security, Mr Gysi said the National Defence Council should be abolished and the Defence Ministry reorganised. Shortly after he finished speaking, the Government announced that it would be disbanding the feared security police service - the Office for National Security, or "Stasi"

MR KENNETH Clarke, Britain's Health Secretary, poses questions in the House of Commons this week over the terms of a deal between the Government and Porton International, a biotechnology company which has raised £76m (£120m) from City of London institutions but has fallen well behind on original profits forecasts.

In 1985, Porton secured an agreement with the Government related to the Centre for Applied Microbiology and Research (CAMR) under which it could commercialise inventions from the laboratory, part of the Health Department.

Part of the deal involved Porton paying an estimated £20m to construct a fermentation plant at CAMR but so far the unit has not been built.

Lord Glenarthur, a former parliamentary under-secretary at the Health Department, was one of the ministers involved with Mr Clarke in finalising the Porton deal.

He said the building of the fermentation unit was a fundamental part of the agreement and he was surprised it had not gone ahead.

Dr Jeremy Bray, the Labour Party spokesman on science and technology, said he had tabled House of Commons questions for Mr Clarke. He described the affair as "very odd".

Porton, whose chairman is Mr Wesley Haydon-Baillie, has been the subject of comment in the City of London because in spite of significant backing from some of Britain's biggest financial institutions, its progress has been less than expected.

Brain drain deepens dilemma in Hong Kong

By John Elliott in Hong Kong and Ralph Atkins in London

THE DILEMMA facing the British Government over Hong Kong will be deepened today by a survey showing that less than one-third of the colony's professional staff intend to stay there after it reverts to Chinese sovereignty in 1997.

The survey may seriously underestimate the problem, because it was carried out before the Tiananmen Square crisis in June, since when the number of people trying to leave has risen sharply.

In the UK, Mr Francis Maude, the Foreign Office minister, yesterday gave a clear signal that the Government would press ahead with plans to give a limited number of Hong Kong residents the right of abode in the UK - despite strong opposition from within the Conservative Party.

The Government believes that giving senior administration and business figures access to the UK will help restore confidence in the colony - and need not necessarily lead to a large-scale inflow of Hong Kong Chinese into the UK. Conservative critics oppose any large-scale relaxation of immigration laws.

The Government is expected to announce in the House of Commons this week its plans for granting the right of abode. Broad decisions were taken before Conservative backbench opposition became most visible, but final decisions have still to be made.

Mr Maude said Britain was committed to delivering a "package of assurances" to Hong Kong. Speaking on BBC Television, he said: "The purpose of this is not to bring people here but to anchor them in Hong Kong." He hoped to convince Tory rebels that changes would not boost immigration into the UK but deter it.

He repeated Britain's determination to repatriate Vietnamese boat people in Hong Kong - another policy intended to boost confidence in the colony. But, referring to last week's involuntary return of 51, he dismissed accusations of ill-treatment. "There is no force used, there is no force threatened," he said.

The Pope, who rarely criticises the actions of governments, yesterday described the decision to repatriate the Vietnamese as "grave" and said he was very concerned about the fate of thousands of refugees in the colony.

Proposals to give passports to Hong Kong residents would be aimed at persuading Hong Kong's most valuable professional people, civil servants and entrepreneurs to stay. Government officials yesterday said that even if legislation was required, it would be some time before it was brought before Parliament - it was too early to begin calculating the strength of opposition.

Any scheme is unlikely to have much effect on next year's brain drain from Hong Kong which the Government expects will rise to 55,000 people from this year's 45,000.

WORLD WEATHER

| Area | Temp | Wind | Cloud | Pres | Humid | Visib | Other |
|--------------|------|------|-------|------|-------|-------|-------|
| Algeria | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Alexandria | 18 | 10 | 10 | 1015 | 65 | 10 | |
| Amman | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Antananarivo | 22 | 10 | 10 | 1015 | 65 | 10 | |
| Asmara | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Bahia | 22 | 10 | 10 | 1015 | 65 | 10 | |
| Bangkok | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Batavia | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Bombay | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Buenos Aires | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Calcutta | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Cairo | 18 | 10 | 10 | 1015 | 65 | 10 | |
| Caracas | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Chengde | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Chongqing | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Columbo | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Dakar | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Dhaka | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Dordrecht | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Dublin | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Edinburgh | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Geneva | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Hankow | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Hong Kong | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Hull | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Imbabura | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Indraprastha | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Jakarta | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Jeddah | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Johannesburg | 18 | 10 | 10 | 1015 | 65 | 10 | |
| Kobe | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Kuala Lumpur | 28 | 10 | 10 | 1015 | 65 | 10 | |
| Lagos | 28 | 10 | 10 | 1015 | 65 | 10 | |
| London | 12 | 10 | 10 | 1015 | 65 | 10 | |
| Luanda | 28 | 10 | 10 | 1015 | 65 | 10 | |
| London | 12 | 10 | 10 | 1015 | 65 | 10 | |
| London | 12 | 10 | 10 | 1015 | 65 | 10 | |
| London | 12 | 10 | 10 | 1015 | 65 | 10 | |
| London | 12 | 10 | 10 | 1015 | 65 | 10 | |
| | | | | | | | |

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INSIDE
Travelling in a westerly direction

A capitalist problem has recently been stalling Hungary's busy travel agency, competition. For years, the company enjoyed a monopoly over the tourism sector - until CoopTourist set up in rivalry about five years ago. Now it has found what may be termed an appropriate solution to its difficulties. It has been partially sold to an international consortium headed by Austria's second biggest bank in a deal that will involve it becoming one of the first east European companies to be listed on a western stock exchange. reports. Page 23

Tokyo sets new challenge

The London-based Euromarkets face a new challenge from Tokyo: Nippon Steel, Japan's largest steelmaker, is about to become the largest company to use the Tokyo market for an issue of year-denominated warrants. It will give a powerful boost to what is currently a tiny competitor to the Euroarrant market. Stephan Wagstyl reports. Page 21

Assessing options

UK Paper, which has agreed a £283m takeover bid from Metis-Seria, the Finnish forest products group, has held discussions with at least one other company interested in making an alternative offer. The possibility of a new offer this week has emerged after disquiet among City analysts about the terms of the bid for Britain's biggest fine paper manufacturer announced last month. Page 20

The decade of divestment

VOLVO Volvo, the Swedish car manufacturer, last week appeared to become the latest large corporation to join the divestment trend which has characterised the 1980s: it announced a restructuring of its pharmaceuticals and food interests, allowing it to concentrate on its core business. Christopher Lorenz, in the Business Column, looks at the factors behind the trend. Page 40

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GM finds alternative route to upper reaches

Kevin Done on how the Saab deal gives the US group the entry to the luxury car market it has long wanted

A month ago, General Motors was seen as a long way from the luxury car market. Now it has found a way to enter it. The deal with Saab-Scania, announced last week, is a landmark. It gives GM the entry to the luxury car market it has long wanted. Kevin Done reports.

Advanced, there is a general perception that a Ford remains a Ford. The same can be said of the GM marquee - Opel in continental Europe, Vauxhall in the UK. Ford has found its hoped-for salvation in Jaguar - admittedly at the sky-high price of £1.6bn (\$2.5bn) - while GM has decided that the Saab car offer is an alternative route towards the same goal. It is taking on a Ford cast-off. Earlier this autumn, Ford was pursuing both Jaguar and Saab in parallel assaults and was the frontrunner in the talks with the Swedish car maker. It withdrew from the negotiations in late October, however, apparently stumbling over its insistence on majority control and on its inability to make financial sense of the necessary investment.

This Ford turned itself single-mindedly to the pursuit of Jaguar, the Saab baton was picked up by Fiat of Italy. Fiat has no lack of marquee in its collection, having swallowed virtually every other Italian auto operation of any significance in recent years. Ford was poised in Turin on Thursday to dot the 'i's and sign a deal, which would have given the Italian car maker majority control of the Saab car operations. Fiat had planned to merge Saab with its Lancia division, would have moved some production to Scandinavia and located the headquarters of the newly-established Saab-Lancia in a neutral capital, most probably London.

Unbeknown to Mr Cesare Romiti, managing director of Fiat Auto, however, Mr George Karnsund, Saab-Scania chief executive had been conducting parallel secret talks with GM since mid-November. Mr Karnsund led a small Saab-Scania exploratory team to GM Europe's Zurich headquarters, at GM's invitation, on November 21.

"The chemistry worked very quickly," said one senior executive involved in the talks. Within days the two sides had elaborated a product development programme for the Saab marque for the 1990s, and on November 27 and 28 Mr Robert Eaton, president of GM Europe, took a GM team on a visit around Saab's plants and technical centre.

In the Jaguar deal, GM had become bogged down with its lawyers and bureaucrats, but in



Saab-Scania's George Karnsund (left) and GM's Robert Eaton

the negotiations with Saab speed and secrecy triumphed.

With the Saab/GM deal the automotive landscape of Europe has again been changed decisively, as the pace of concentration in the industry accelerates and the small and weak players are swallowed up by the big battalions.

In addition to Saab, Jaguar has fallen to Ford this year. Fiat has effectively swallowed Maserati and Honda of Japan is about to finalise its deal to take a 20 per cent stake in Rover Group's vehicle operations. In recent years, Alfa Romeo has fallen to Fiat - stolen controversially from under the nose of Ford - Volkswagen has taken over SEAT of Spain, while GM has taken over Lotus, Ford has taken over Aston Martin and Chrysler has acquired the Japanese firm.

According to Mr Karnsund, "soaring costs for research and

with little sign of a replacement for its aged 900 before well into the 1990s.

The company had already embarked on an extensive rationalisation effort, including the sale of components operations, a reduction in output and cuts in the workforce, but this was not expected to show results before 1990-91. The workforce is being cut by 1,500 to 2,000 during 1989-90.

All Saab's car production capacity is located outside the European Community. Output is spread inefficiently across three assembly plants, two in Sweden and one in Finland, for an expected total output this year of only 110,000 cars.

Saab is hardly the ideal takeover candidate for another car maker in Europe. But with Saab Automobile's capacity at a time when most of its European plants are working at full stretch.

It plans to take Saab into the luxury car market with an additional range of cars above its present 900 and 9000 segments, the reverse of the task facing Ford, which plans to add a new lower range to Jaguar's luxury cars in the executive car segment.

Both GM and Ford face a new haul to make their new investments pay dividends, and it could take a decade to see if the gambler thrown by the US plants in recent weeks produce the hoped-for pay-off.

Ghosts of Christmases to come

By Anthony Harris in Washington

Who said of whom that "X has established a consistent record of facing up to serious problems and failing to solve them?"

Mr Bush of Mr Gorbachev? Mrs Thatcher of Mr Lawson? Any Democrat of Budget Director Richard Darman? Any Republican of Governor Dukakis? Actually, it is Professor Alan Meltzer, a Chicago monetarist, of Treasury Secretary Nicholas Brady, but it is interesting how universally this cap fits. The most hopeful year since the victory of 1945 has set a forbidding agenda for the 1990s.

President Bush, who complained in his first year in office that he had not really been tested, should have no complaint about 1990. He faces a much bigger budget problem than in 1989 with a dangerous slowing of government debt growth as investment seek quality; but recession talk drives up the price of gold, not of bonds, for fear of the great bailouts to come.

The savings and loan crisis may be only a preview, and that is bad enough.

Now the markets fear that the regional banks may also be sinking under the burden of real estate loans. Total insured deposits now total about \$3,600bn; add in mortgage insurance, and the sum approaches \$4 trillion.

On top of this, there is a quite unknown exposure to badly-run private sector pension plans, and possibly to large-scale fraud and embezzlement. The total is unknown because the Pension Benefit Guarantee Corporation, which backs the pensions of 66m beneficiaries, has only 300 inspectors to police some 900,000 insured schemes.

Meanwhile the corporation is already \$1.5bn in the red on claims it has had to meet - just as the FDIC, which covered thrifts until it was merged with the FDIC, was insolvent before the problem was exposed.

President Bush was on the brink of a major war on bureaucracy may prove the most expensive war the US has fought since the big one. Mr Paul Volcker, who chaired a private commission on the public service, has been trying for some time to alert the country to the dangers of weak administration by a demoralised bureaucracy, but has confessed that he finds it hard to get anyone to listen.

Mr Reagan has left another legacy which makes it very much harder to solve these problems - or any others. Anti-tax sentiment in this country is now so fierce



that both the federal government and many state governments are facing what Mr Volcker, again, in an article yesterday, called budgetary gridlock. Mr Volcker wants the country to face the need to make means consistent with ends.

The State of Massachusetts has had a very bad press recently for going to the Japanese banks for credits to keep paying its bills, while Governor Dukakis wrangles with his own supporters over possible solutions. With less publicity, the President is really following the same strategy. That is what investors know when they buy gold.

Events may force the Administration to face this reality (the Congress is much readier to raise taxes to pay for desired programmes), so that the President will join Europe in leading the effort to finance the liberation of central Europe, rather than plead poverty when Mr Lech Walesa asks for help. However, if the domestic crisis is to be solved rather than bailed out, he will have to take the lead in a big change in American thinking.

The President and the Secretary of State, Mr James Baker, have both been heard to complain recently that the real problem with the new democracies is that they do not understand the market economy; but this is another cap which fits more than one head.

Only a handful of academics have yet pointed out that the price of gold is a predictable result of what bankers call moral hazard: federal insurance schemes are an incentive to excessive risk-taking. Such schemes should therefore either be heavily policed, or abolished. The first solution offends laissez-faire prejudice, the second is regarded as "politically impossible".

Meanwhile, another politically impossible proposal based on sound market economics is winning support from the most embarrassing quarters. The legislation of hard drugs is now being preached by such pillars of the right as Mr George Schultz, the former Secretary of State, and Professor Milton Friedman. The drug "czar", Mr William Bennett, is in a tearing rage about this, and is appearing every-

Economics Notebook

Queen Beatrix spreads fears

AT THE Strasbourg summit, the European Community agreed to embark on the road to economic and monetary union (EMU), with an intergovernmental conference to revise the EC treaties to be called by the end of next year.

At first sight, only the UK appears to have difficulty swallowing this programme. On closer examination, however, it looks as though the "Queen Beatrix effect" has swept a good many concrete objections under the carpet, as a recent conference on international monetary policy, organised in Paris by the Banque de France, made clear.

It was Queen Beatrix who, at the recent opening of the Dutch parliament, declared that "the Netherlands Government sees the realisation of an EMU as a natural consequence of the implementation of the internal market".

The Queen Beatrix effect, by which European politicians instinctively leap from the realisation of the 1993 internal market programme to the idea of permanently fixed exchange rates and then full monetary union, sends shivers down the spines of some hard economists, such as the Bundesbank in West Germany.

"It may be difficult to argue, on the basis of hard economics, in favour of reasonable flexibility of European exchange rates once the pure politics of monetary integration are accorded an overwhelming weight," commented Mr Hermann-Josef Dudler, deputy head of the Bundesbank research department, at the Paris conference.

Mr Dudler noted with anxiety that France, and some other countries, favoured a transition to a *de facto* fixed exchange rate system as early as the first stage of the EMU plan outlined by Mr Jacques Delors, president of the European Commission, whereas the

Delors report itself does not speak of fixing rates until a still distant third stage.

The problem with this approach, according to Mr Andrew Crockett of the Bank of England, is that it involves giving up both the exchange rate and interest rates as tools of economic adjustment at a time when other adjustment mechanisms, such as labour mobility and price systems, are far from adequately developed in Europe.

Already, the emphasis on avoiding realignments within the exchange rate mechanism of the European Monetary System has meant an extensive use of interest rates as a tool of external policy, "not fully in accordance with the Bundesbank's interpretation of the functioning of the EMS", according to Mr Dudler.

This leaves fiscal policy as the principal tool remaining available for economic adjustment between the different countries of Europe - whether because one country has allowed inflation to accelerate faster than another, or because an external shock has affected different countries in different degrees.

But budgets, according to most participants in the Banque de France conference, are better suited to medium-term perspective.

"An appropriate fiscal policy should be guided by considerations of long-term efficiency, resource allocation, income distribution and economic growth - rather than by short-term considerations of demand management and fine tuning," noted Mr Jacob Frenkel and Mr Morris Goldstein of the International Monetary Fund's research department.

It is by no means clear what Queen Beatrix's own reaction would be to this emphasis on budget policy as the means for adjustment. France's socialist

THIS WEEK

A STEADY flow of economic indicators from the world's leading industrial nations this week is unlikely to disturb international financial markets, which have already started winding down ahead of the Christmas and New Year holidays.

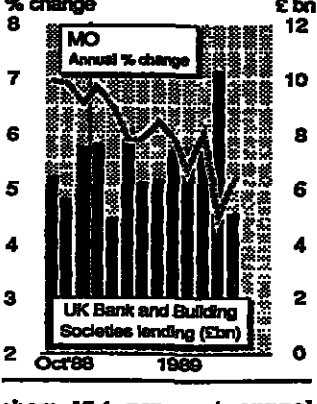
From Thursday evening, however, economic commentators will have plenty to ponder in the Paris-based Organisation for Economic Co-operation and Development's latest bi-weekly Economic Outlook for the industrialised world.

The document is expected to forecast a slowdown to more sustainable 2.9 per cent growth in 1990 for the 24 OECD nations from 3.6 per cent this year. However, it can also be expected to warn of continuing inflationary pressures and may forecast a slight quickening of OECD inflation to 4.5 per cent in 1990 from 4.4 per cent in 1989.

The report should also highlight the growing differentiation in economic performance between the Anglo-Saxon countries - the US, Britain and Canada - which face lower-than-average growth next year, and Japan and the main European Community countries, which continue to enjoy strong activity.

In Britain, attention is likely to focus on Wednesday's money supply and lending statistics for November. M0, the narrow measure of money supply, is expected still to be outside the Government's target range of 1 per cent to 5 per cent growth for the current financial year, while bank and building society lending is thought to have revived in the month.

The consensus of analysts' forecasts compiled by MMS, the financial research company, is for an 5.5 per cent annual increase in M0 in November after 5.2 per cent in October and a jump of £7.5bn in bank and building society lending compared with October's £5bn. The M4 broad money measure is expected to



show 17.4 per cent annual growth in November.



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UK COMPANY NEWS

UK Paper talks could lead to alternative offer

By Ray Bashford

UK PAPER, which has agreed to a £288m takeover bid from Metis-Serla, the Finnish forest products group, has held discussions with at least one other company interested in making an alternative offer. The possibility of a new offer this week has emerged after disquiet among City analysts about the terms of the Finnish bid for Britain's biggest fine paper manufacturer, which was announced last month. A UK Paper director who represents a relatively large slice of the capital is understood to have expressed reservations about the 330p a share offer. The company's shares have traded consistently above the

offer price, reflecting a belief in the market that there might be an alternative offer. UK Paper achieved independence in September 1988 through a management buy-out from Bowater Industries for £38m and when it was floated on the Stock Exchange in March last year was valued at £100m. Fletcher Challenge, the diversified New Zealand forest products group, is understood to have been one of the companies involved in discussions with UK Paper last week. The New Zealand company is one of only six large integrated paper businesses which would be interested in expanding further through the acquisition of UK Paper. Discussions with several of these other companies took place before the announcement of the Finnish offer, an analyst said yesterday. "Talks were held with a number of people but only the Finnish company was willing to put the offer on the table. I think you could say that it is still a highly fluid situation," he added. Directors control about 9 per cent of UK Paper's capital. The board's failure to give irrevocable undertakings to accept the offer, which is common in agreed bids, has heightened speculation that the board believed an alternative bid was possible.

CH Inds growth slows to 29% midway

By Clare Pearson

PRE-TAX profits growth at CH Industrials, the holding company with interests ranging from truck cabs to mannequins, slowed to 29 per cent in the half-year to end-September. The advance to £7.32m (£6.87m) was scored on turnover 44 per cent higher at £116.33m (£90.57m). Fully-diluted earnings per share rose by 6 per cent to 5.94p (£5.57p). The London dividend lifted to 1.2p (1.1p). The results incorporated big downturns in two of the divisions: household products and furnishings and office products and shopfittings. Operating profits from these were £590,000 (£1.5m) and £596,000 (£1.6m) respectively. The company said the falls reflected downturns in the UK retail and housebuilding sectors, as well as a fire at a Bristol factory which hit otherwise buoyant office furniture sales. Specialist engineering and design doubled its operating profits to £3.91m (£1.95m). Property and investment activities carried out in wholly-owned subsidiaries made £1.58m (£669,900).

Lovell warns of threat to Higgs' profits

By Ray Bashford

YJ LOVELL has written to shareholders of Higgs and Hill suggesting that its competitor in the housing and construction field is facing an increasing threat to profits from its exposure to the private housing market. In reply to Higgs and Hill's takeover defence document, Lovell directors claim that private housing construction has become a growing contributor to its target's pre-tax profits during the past five years. Sir Brian Hill, chairman of Higgs and Hill, said that the statement supporting the £157m takeover offer contained a number of erroneous claims which the company is expected to reply to when it releases its profit forecast before the end of the year. Lovell's document claims that private housing contributed 30 per cent of pre-tax profits in 1984 but the figure last year grew to 48 per cent. Mr Andrew Wassell, Lovell's chief executive, said a takeover would achieve a "well-balanced group" better able to meet shared competitive conditions. Higgs and Hill's defence document over-emphasised the importance of construction to group profits and played down the significance of housing, he added.

£1.9m French buy for W Canning

W Canning, the Birmingham-based speciality chemicals and industrial distribution group, is strengthening its position in continental Europe through the acquisition of Reico, a French speciality chemicals business, for £1.9m cash. Canning will also provide up to £2.1m to refinance existing borrowings.

EMAP abandons Builder interest

By Nikki Tait

EMAP, the UK printing and publishing group, has effectively abandoned any interest in The Builder Group, already subject to a recommended bid from Paris-based CEP Communication, when it sold its 11.42 per cent stake in the smaller specialist publishing company. The 1.66m shares were sold

at 341½p, cum dividend - in line with the cash offer price from CEP. As a result, CEP said that it now owns 2.9m shares, representing 17.6 per cent of Builder's equity, with irrevocable undertakings to accept the offer from shareholders speaking for another 30.4 per cent.

NEWS DIGEST

LMS lifted by interest turnround

LONDON Merchant Securities, the holding company 50.78 per cent owned by Westpool Investment Trust, lifted pre-tax profits by 69 per cent to £11.83m in the six months to September 30.

This was in part the result of an interest turnround - from a charge last time of £3.5m to a credit this of £322,000.

At the trading level, leisure increased its contribution to £2.45m (£1.71m) and property clipped in £148,000 (£12,000). Net rental income grew to £10.1m (£9.53m).

Earnings per share improved to 2.85p (1.87p) and the interim dividend is an unchanged 0.8p.

Lapse into losses at Radiant Metal

Radiant Metal Finishing, which specialises in electroplating and residential property development, reported an operating loss of £21,267 for the half year to August 31, against a profit of £163,600 last time. Turnover rose from £724,787 to £971,126. Earnings per share fell from 7.82p to nil, and there is no interim dividend.

Decline to £1m at Waverley Cameron

Pre-tax profits at Waverley Cameron, the Edinburgh-based office equipment supplier, fell from £1.15m to £1.01m in the six months to September 30. Turnover rose to £25.08m (£21.89m) and operating profits grew to £1.56m (£1.47m). The interest charge was almost

doubled to £552,000. After tax of £352,000 (£429,000), earnings worked through at 0.55p (1.65p) per share and 1.15p (1.34p) assuming full conversion of preference shares. The interim dividend is maintained at 0.3p.

Factoring blamed for downturn at TGI

A reduced contribution from its Goodmans' factored product operations was the principal reason for the profits downfall at TGI in the six months to September 30.

The audio products and loudspeaker group lifted turnover 9 per cent to £25.22m (£23.05m) but the pre-tax result fell from £1.92m to £1.11m. Earnings per share dropped to 4.2p (7p) but the interim dividend is lifted to 2.2p (2p).

Bremner returns to dividend list

Bremner, the Glasgow-based stockbroker and property investor and developer, reported higher pre-tax profits of £92,500, against £23,300, for the six months to December 1, and is returning to the dividend list with a 1p interim. The result was based on higher interest received of £277,000 (£198,000) and lower administration costs of £177,000 (£231,000). Property investment and management returned lower trading profits of £34,000 (£31,000) and there was an increased loss from stockbroking of £42,000 (£24,000). After tax of £54,000 (£38,000) earnings per share were 0.33p (0.13p). There was an extraordinary

Sharp rise to £1.86m at Tops Estates

Tops Estates, the freehold shop and office properties investor, achieved a sharp increase in profits at the pre-tax level from £488,000 to £1.86m in the six months to September 30.

However the company said that at the trading level, profits had advanced 70 per cent to £3.96m (£2.33m). This was before administrative expenses of £278,000 (£197,000); other income of £1.86m (£1.50m) (nil); interest on loans of £3.26m (£1.81m); and interest received on short-term deposits of £1.08m (£1.19m). Earnings rose to 3.69p (1.06p) per share, but there is no interim dividend as usual.

Admin expenses add to losses at SelecTV

Higher administration expenses led to increased pre-tax losses of £182,963 for the six months to September 30 for SelecTV, the USM-quoted subscription television operator. Losses last time amounted to £41,909, and for the year to March 1989 were £156,161. Turnover fell to £13,148 (£23,171) with cost of sales at £13,009 (nil). Administrative expenses rose to £284,160 (£68,125) and losses per 1p share increased to 0.28p (0.15p).

Unleaded petrol sales boost Mirelec

The increasing demand for unleaded petrol helped Mirelec, supplier of services to per-

rol stations, increase taxable profits 22 per cent from £694,000 to £767,000 in the six months to September 30.

Turnover for the USM-quoted company was 41 per cent higher at £6.86m (£4.88m). Earnings per share came out at 4.86p (3.89p) and the interim dividend has been raised to 1.2p (1p).

Alexander Russell static at £1.65m

Alexander Russell saw only a small increase in taxable profits from £1.61m to £1.65m over the six months to the end of September despite a 12 per cent rise in turnover to £22.71m, against £20.21m. Earnings per share were 3.39p (3.71p) and the interim dividend is again 0.54p.

Bristol Evening Post warns of downturn

Bristol Evening Post, the West Country newspaper proprietor, lifted pre-tax profits from £3.97m to £4.17m in the six months to September 30.

However the company said that trading conditions had become more difficult and that advertising revenues for the second half might well not equal those of the equivalent period last time. After intra group sales and rents, turnover totalled £21.18m (£22.54m). Trading profits amounted to £3.87m (£3.8m). Earnings were up at 10.65p (9.51p) per share and the interim dividend is lifted to 3.75p (3.5p).

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£200,000,000 MFC Finance No.1 PLC
Mortgage Backed Floating Rate Notes Due October 2023
In accordance with the Terms and Conditions of the Notes, notice is hereby given that the new interest rates and periods in respect of the subject Notes are as follows:

| Payment Date | Rate % | Payment Date | Rate % |
|--------------------------------------|--------|---------------------------------------|--------|
| Series A 1 December to 31 January 90 | 15.45% | Series D 8 December to 10 January 90 | 15.45% |
| Series B 1 February to 31 March 90 | 15.45% | Series E 11 December to 13 January 90 | 15.45% |
| Series C 1 April to 30 June 90 | 15.45% | Series F 14 December to 16 January 90 | 15.45% |

By: Citibank, N.A. (CIBank Dept.)
December 18, 1989

CITIBANK

ASDA GROUP PLC

£120,000,000 4¾ per cent. Convertible Bonds Due 2002
(the "Bonds")

ASDA Group plc ("ASDA") has reached agreement with The Law Debenture Trust Corporation p.l.c., trustee to the issue, to amend the Trust Deed constituting the Bonds in order to bring about certain changes in the rights of Bondholders. These changes, full details of which are embodied in a supplemental Trust Deed and a revised Extel Card, are designed to have effect as summarised below:

- Bondholders have been granted a right of optional redemption, exercisable in April, 1997, at an increased redemption value to maintain the stated yield to optional redemption of 9.02 per cent per annum.
- ASDA has the ability, in the light of market conditions on or before 24th April, 1992, to increase (but not decrease) the yield to redemption at the Bondholders' option in April 1997 and/or final redemption in April 2002. ASDA may also, prior to 24th April, 1997, announce that it will offer to pay amounts of supplemental interest in respect of each year commencing on 24th April, 1997 to 2001 inclusive.
- ASDA has the option in each year from 1992 to 1997 inclusive to announce that it will pre-pay in cash on succeeding coupon dates equal amounts of supplemental interest representing the redemption premium which would otherwise be payable to Bondholders in April, 1997, thus maintaining an overall return of 9.02 per cent. (or such higher rate as may have been offered under 2 above) up to April 1997.
- ASDA has given up its unconditional rights to redeem at 101 per cent. from 24th April, 1992, to 23rd April, 1993 and to redeem at par from 24th April, 1993 to 24th April, 1997. It has, in addition, restricted its option to redeem the Bonds on 24th April, 1992 so that it may only redeem them on that date at the 1992 put price (rather than at 101 per cent. as formerly). ASDA will have the right to redeem the Bonds at the 1997 put price on 24th April, 1997. If ASDA decides to offer to pay supplemental interest in the period from 25th April, 1997, to 24th April, 2002, ASDA's right to redeem the Bonds will be restricted to protect the value of such supplemental interest.
- ASDA has been given new rights of redemption, at 101 per cent. from 24th April, 1992 to 23rd April, 1993, inclusive, and at par thereafter until 24th April, 1997, conditional until 24th April, 1997, on its share price reaching a level at which the value of conversion exceeds by 15 per cent. the accruing value of the additional 1997 investor redemption option together with any accrued but unpaid interest.
- A re-underwriting option has been included, enabling ASDA to require Bondholders exercising their 1992 or 1997 redemption options to sell their Bonds at the 1992 (or 1997) optional redemption price to a bank, which would underwrite the placing of those Bonds in the market, such underwriting to be in effect guaranteed by ASDA. So far as Bondholders are concerned, the existence of this re-underwriting option will make no difference to the action required to obtain the optional redemption price applicable in 1992 or 1997, as the case may be. Bondholders who wish to redeem will be able to follow the standard procedure of tendering their Bonds together with an option notice, whether ASDA has arranged a re-underwriting or not.
- ASDA has been granted the additional option to treat Bondholders exercising their 1997 optional redemption rights as having exercised their conversion rights, and may arrange for the ordinary shares in ASDA so issued to be placed on such Bondholders' behalf. Under this option, Bondholders would receive the same cash sum as that to which they would have been entitled under the redemption option, whether or not such sum exceeds the proceeds of the placing of ordinary shares on their behalf.
- The two-week periods for exercise of the optional redemption options in 1992 and 1997 are to commence 21 days before the respective optional redemption dates. Full details of any re-underwriting arrangements are to be notified to Bondholders prior to the period in which they are able to give notice of optional redemption.

Full details of the changes are set out in the revised Extel Card. Copies will be available in the Extel System and from the Conversion Agents in London:

Royal Bank of Canada Europe Ltd.
71 Queen Victoria Street
London, EC4V 4DE

ASDA Group plc
15th December, 1989

MORTGAGE SECURITIES (No. 2) PLC
£20,000,000
MORTGAGE BACKED FLOATING RATE NOTES DUE 2028

For the interest period 15th December, 1989 to 15th March, 1990 the Notes will bear interest at 13.5675% per annum. Interest payable on 15th March, 1990 will amount to £1,738.25 per £100,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London.

Bank of Tokyo (Canada) Holding
FRF 400,000,000
Guaranteed Floating Rate Notes due 1992

For the interest period from 16th December 1989 to 15th March 1990 each Note will bear interest at a rate calculated pursuant to Condition 1 of the Notes, equal to 10.25% per annum. The Coupon Amount shall be FRF 307.25 for each Note of FRF 10,000 nominal amount and FRF 307.25 for each Note of FRF 100,000 nominal amount.

The Interest Payment Date with respect to each Coupon Amount shall be 15th March 1990

LISTED ON THE PARIS AND LUXEMBOURG STOCK EXCHANGES
By BANQUE INDOSUEZ, Agent Bank

FLASH LIMITED SERIES G
U.S. \$30,000,000
Secured Floating Rate Notes Due 1993

In accordance with the conditions of the notes, notice is hereby given. Due for the three month period 18th December 1989 to 18th March 1990 (85 days) the notes will carry an interest rate of 8.775% p.a. Relevant interest payments will be as follows:

Notes of U.S. \$100,000 U.S. \$2,143.00 per coupon.

THE SANWA BANK LIMITED
Agent Bank

This advertisement is issued in compliance with the Regulations of the Council of The Stock Exchange. Listing Particulars relating to London and New York Convertible Trust PLC (the "Company") have been delivered to the Registrar of Companies Application has been made to the Council of The Stock Exchange for the Ordinary shares to be admitted to the Official List. It is expected that listing for the Ordinary shares will become effective on 21st December, 1989 and that dealings will commence on the same day.

LONDON AND NEW YORK CONVERTIBLE TRUST PLC
(Registered in England and Wales under the Companies Act - Registered No 245792)

Placing of 15,000,000 Ordinary shares of 10p each at 100p per share.

The Company has been established to be an investment trust which will invest, primarily, in quoted convertible securities in the United Kingdom and the United States.

SHARE CAPITAL

| | |
|--------------------------------|-------------------|
| Authorised | Issued fully paid |
| £2,000,000 | £1,500,000 |
| In Ordinary shares of 10p each | |

Listing Particulars relating to the Company are available in the statistical section of Eurol Financial Services Limited. Copies of the Listing Particulars may be obtained for collection only during normal business hours (Monday to Friday, 10.00am to 5.00pm) on any weekday, Saturdays and public holidays excepted up to and including 20th December, 1989 from the Company Announcements Office, The Stock Exchange, 40-50 Victoria Street, London EC2A 1DD, and up to and including 31st January, 1990 from:

Sponsor: Kinnaird & Asher
71 Queen Victoria Street
London EC4V 4DE

and from
London and New York Convertible Trust PLC
Windsor House
83 Kingsway
London WC2B 6SD

18th December, 1989

* A Division of RBC Dominion Securities International Limited

FINANCIAL TIMES STOCK INDICES

| | Dec 15 | Dec 14 | Dec 13 | Dec 12 | Dec 11 | Dec 8 | High | Low | Since Completion |
|------------------|---------|---------|---------|---------|---------|---------|---------|--------|------------------|
| Government Secs. | 83.99 | 83.68 | 83.64 | 83.77 | 83.62 | 83.74 | 85.29 | 82.93 | 127.4 |
| Financial | 92.25 | 92.27 | 92.19 | 92.21 | 92.13 | 92.02 | 99.59 | 92.02 | 106.4 |
| Ordinary | 1891.7 | 1871.4 | 1880.1 | 1861.5 | 1851.8 | 1862.0 | 2008.6 | 1447.8 | 2008.6 |
| Gold Miners | 308.9 | 311.6 | 317.8 | 317.4 | 312.8 | 300.5 | 317.8 | 154.7 | 754.7 |
| FT-Act All Share | 1169.73 | 1179.48 | 1186.76 | 1177.00 | 1172.04 | 1176.92 | 1225.80 | 921.22 | 1236.57 |
| FT-SE 100 | 2344.7 | 2367.0 | 2366.2 | 2363.5 | 2351.4 | 2363.5 | 2426.0 | 1782.8 | 2443.4 |

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Seasonal torpor fails to materialise

NEW DEALS continue to emerge in the international loans market - and many more are said to be waiting for the new year - as the seasonal lull fails to display its usual seasonal torpor.

Kingfisher, the stores group making a \$265m bid for Dixons, the electrical retailer, disclosed the details of a \$1.4bn financing which will restructure existing facilities and fund the proposed acquisition.

The loan is underwritten by Midland and Banque Nationale de Paris, both committing \$450m, Amsterdamsche Rotterdamsche and Toronto-Algonquin \$250m and Toronto-Algonquin \$250m. Selected banks with which the company intends to maintain important relations are being asked by Kingfisher to help in underwriting the financing, which will remain in place even if the bid is referred to the Monopolies and Mergers Commission.

The deal is for three years and carries a facility fee of 10 basis points if less than \$700m is drawn and 15 basis points for larger amounts. Also, there is a margin of 25 basis points, which falls to 15 basis points after one year provided less than \$700m is outstanding.

While the deal may be defined according to the strict guidelines of the US Federal Reserve as a highly-leveraged transaction, its leading bankers are viewing it as a well-priced corporate credit. Some banks may be put off by Dixons' exposure to the current uncertain retail environment, although its share price has to some extent taken that into account. However, the attraction of a corporate relationship and a relatively short maturity should seal the deal.

Fort has raised \$200m from banks, without the help of a bank arranger, for its acquisition of Inagran. Ten banks are said to have agreed to provide \$200m each for the credit. The three-year loan carries a facility fee of 7.5 basis points for two years and 10 basis points for the remainder, and a margin of 12.5 basis points, with the borrower paying reserve asset costs.

Stephen Fidler

YEN EQUITY WARRANTS

Euromarket brokers face fresh challenge from Tokyo

BROKERS IN the London-based Euromarkets, who have been unsettled by moves by the Japanese Ministry of Finance (MoF) to tighten regulation of US-dollar denominated equity warrant issues in the Euromarket, face a new challenge from Tokyo.

The fledgling Tokyo market in yen-denominated warrants, a tiny competitor to the Euro-warrant market, is likely to receive a powerful boost from Nippon Steel, Japan's largest steelmaker. Nippon Steel is about to become the largest company so far to use the Tokyo market - for a ¥100bn warrant bond issue which is likely to be made in January.

Equity warrants are a huge source of low-cost finance for Japanese companies. Warrants give the holder the right to buy stock in a company at a set

price. The warrants are issued attached to a bond then they are split from the bonds and traded separately. The interest rate is lower than for a straightforward bond issue.

Although there are some technical reasons for Nippon Steel's choice of Tokyo, other companies are expected to follow its example because the cost of dollar warrants compared with yen warrants has risen strongly in recent months. They will be encouraged to do so by the MoF which has been trying hard to promote the Tokyo market.

For brokers in the Euromarkets, news of Nippon Steel's plans come at a very sensitive time. Last week they learnt that the MoF is considering tough measures to increase investor protection in the Euro-warrant market. Although

the primary issues are made in London, some 70 per cent of the paper is bought by Japanese investors, some of them private individuals.

The ministry believes individual investors are often exploited because two-way prices for warrants are not sufficiently well publicised. It is prepared to force brokers to list dollar warrants on the Tokyo Stock Exchange - but is ready to listen to other suggestions. Securities companies are lobbying the ministry not to enforce listings.

The timing of Nippon Steel's move seems coincidental - although it is convenient for the ministry to be able to point to a large Japanese company which is happy to issue warrants in Tokyo and have them listed on the TSE.

The MoF has tried this year

to make Tokyo a more attractive place for issuing warrant bonds by scrapping a classification requirement which had previously forced borrowers to pay high interest rates. Officials have also allowed brokers to split warrants from bonds more quickly in the course of an issue - so permitting them to be sold separately.

In the spring, Dai-ichi, a super-market group, became the first company to issue warrant bonds in Tokyo since 1987 with a ¥40bn offering. It has been followed by eight others - including Haseko, a trading company which made two issues totalling ¥100bn, and Osaka Gas, with an ¥80bn offering. This pales in comparison with the \$30-plus dollar warrant Eurobonds worth over \$55bn issued so far this year.

However, if Nippon Steel's

move encourages other groups to switch to Tokyo, the impact would soon be felt in London. The cost of dollar warrants has been rising since the summer. Japanese borrowers typically turn the proceeds of a dollar warrant issue into yen through a currency swap.

On this basis, the effective cost, in yen terms, of dollar warrant bonds has risen from under 0.5 per cent in the first quarter of 1989 (on some issues the interest rate was negative - in effect companies were being paid to borrow) to a range of 1.1 to 1.5 per cent this month, according to Yamaichi.

The cost of issuing yen warrant bonds has risen much less and is now about 0.5 per cent. The reason that Japanese companies have not all been rushing for the Tokyo warrant market is that the MoF

imposes various restrictions on fund-raising. One is that the amounts of bonds a Japanese company can issue is determined by the size of its existing capital and reserves. The limit for domestic fund-raising of unsecured funds is roughly half the limit for overseas fund-raising. So, companies can raise more funds overseas.

Another rule sets the limit for secured funds twice as high as unsecured. But large companies generally do not issue secured bonds - mainly for reasons of pride. Nippon Steel's proposed issue will however be secured. The company declined to comment. But brokers said the group was close to its fund-raising limits on other categories of bond.

Stefan Wagstyl

EUROBONDS

Positive response for LBO backed deal

A \$625M four-tranche Eurobond backed by US leveraged buy-out loans was launched by BNP Capital Markets on Friday as expected. Credit National was a joint lead manager on the deal which came through Afer BV, a special-purpose vehicle. BNP said the response had been encouraging given the time of year.

The main \$500m tranche, guaranteed by Financial Security Assurance, carries a margin of 25 basis points over one-month Libor and has an average life of 3.4 years. The notes were trading at 99.80 bid, a discount equivalent to full underwriting fees.

The lower-quality B and C slices, which do not carry a credit guarantee, were mainly pre-placed with institutional investors, and were underwritten by just three houses: BNP, Credit National and Kleinwort Benson.

The \$20m D tranche was pre-placed with five institutions at a margin of 24 basis points over Libor. The tranche will be the first to absorb any losses on the underlying pool of loans, and the margin will decrease if there are any early prepayments on the loans.

The \$625m portfolio of loans was purchased from 20 US financial institutions, with Chemical Bank acting as the sourcing agent.

All the loans are amortising, secured-term loans and cover 30 US leveraged buy-outs. Among the deals involved are Black & Decker, Burlington, Stone Continental and RJR Nabisco.

No single loan makes up more than 5 per cent of the portfolio, and no industry accounts for more than 10 per cent of the pool. The original total amount of the term loans was \$22.5bn, and around \$20bn is thought to be outstanding. The average life of the tranches was calculated on the assumption that only mandatory payments would occur on the loans. If there are any optional prepayments, this should shorten the average life on the note issues.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % | |
|---------------------------|-----------|----------|----------------|-----------|---------|----------------------|----------------|-------|
| US DOLLARS | | | | | | | | |
| Bankers/Time-Hartman | 500 | 1993 | 4 | 2 3/4 | 100 | Yamaichi Int | 2.500 | |
| FMC Corp | 75 | 2005 | 15 | 8 1/4 | 100 | Morgan Stanley Int | 8.750 | |
| MBE Finance | 60 | 2000 | 11 | (a) | 102 | Mitsubishi Fin Int | - | |
| Polly Peck Int Fin | 110 | 2005 | 15 | (7-7 1/4) | 100 | Shearson L Man Int | - | |
| Vitamin Ltd | 60 | 1993 | 4 | (f) | 100.10 | Nippon Credit Int | - | |
| Republic of Austria | 400 | 2000 | 11 | 8 1/2 | 98 1/2 | Daiwa(Europe) | 5.577 | |
| State Elec.Com.(London) | 200 | 1999 | 10 | (g) | 100 | Paribas Cap.Mkts | - | |
| Nissan Int.Fin | 50 | 1993 | 4 | 8 1/2 | 101 1/4 | IBJ Int | 8.122 | |
| AFER BV | 50 | 1998 | 9 | (c) | 100 | BNP Cap.Mkts | - | |
| AFER BV | 50 | 1998 | 9 | (c) | 100 | BNP Cap.Mkts | - | |
| AFER BV | 50 | 1998 | 9 | (c) | 100 | BNP Cap.Mkts | - | |
| CANADIAN DOLLARS | | | | | | | | |
| Finland Export Credit | 100 | 1997 | 8 | Zero | 52.00 | Wood Gundy | 5.517 | |
| AUSTRALIAN DOLLARS | | | | | | | | |
| State Elec.Com.Victoria | 200 | 2000 | 11 | Zero | 31.45 | Samuel Montagu | 11.089 | |
| PK Bank | 125 | 1990 | 1 | 9 | 94.50 | Paribas Cap.Mkts | 14.579 | |
| DM-MARKS | | | | | | | | |
| Sumitomo Construction | 150 | 1993 | 4 | 1 1/2 | 100 | WestLB | 1.825 | |
| Dynic Corp | 100 | 1995 | 4 | 1 1/2 | 100 | Deutsche Bank | 1.925 | |
| Dresdner Fin | 100 | 2000 | 10 | (g) | 100.05 | Dresdner Bank | - | |
| AGAB Fin | 50 | 1993 | 4 | 7 1/2 | 112 | DG Bank | 4.528 | |
| SWISS FRANCS | | | | | | | | |
| Network Corp | 70 | 1994 | - | Zero | 100 | BSI | - | |
| Nokia Corp | 100 | 1997 | - | 6 1/4 | 100 1/4 | Nordfinanz Bk | 6.828 | |
| Komel Tekstil | 60 | 1995 | - | 1/4 | 100 | Nomura Bk (Switz) | 0.250 | |
| FRENCH FRANCS | | | | | | | | |
| Interfin.Cred.Int | 800 | 1991 | 2 | 10 1/4 | 100.80 | Credit Lyonnais | 9.790 | |
| Barclays Bank Pte | 700 | 1991 | 2 | 10 1/4 | 100.80 | CCF | 9.790 | |
| ECUs | | | | | | | | |
| Council of Europe | 75 | 1995 | 8 | 9 1/4 | 101 1/2 | Morgan Stanley | 8.328 | |
| LIRA | | | | | | | | |
| World Bank | 200bn | 1995 | 8 | 12 1/4 | 101.55 | BCI | 11.874 | |
| PESETAS | | | | | | | | |
| European Inv.Bk | 15bn | 1995 | 6 | 13.1 | 100 | Banco Bilbao Vizcaya | 13.100 | |
| IRISH POUND | | | | | | | | |
| Kredietbank Int.Fin | 50 | 1993 | 4 | 11 | 101.55 | Kredietbank NV | 10.569 | |
| BORROWERS | | | | | | | | |
| STERLING | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % | |
| EUROBOND | 100(y) | 1999 | 10 | 10 1/2 | 93.75 | Kleinwort Benson | 11.531 | |
| YEN | | | | | | | | |
| Toyota-Theho Fin.Int | 2.5bn | 1990 | 1 | (c) | 100 1/2 | Ryoko Securities Int | - | |
| Toyota-Theho Fin.Int | 1.5bn | 1990 | 1 | (c) | 100 1/2 | Ryoko Securities Int | - | |
| Helaba Finance | 10bn | 1993 | 4 | 6.15 | 101 1/2 | IBJ Int | 5.770 | |
| Skiopbank | 6.7bn | 1990 | 1 | 7 | 101 1/2 | New Japan Securities | 5.810 | |
| Balliba Bank | 15bn | 1995 | 6 | 6 | (h) | 101 1/2 | Daiwa (Europe) | 6.226 |
| Skiopbank | 10bn | 1993 | 4 | 6 | 101 1/2 | IBJ Int | - | |
| Kingdom of Denmark | 25bn | 1995 | 6 | 6 1/4 | 101 1/2 | LTCC Int | 5.895 | |
| Landes Kreditbank | 7.2bn | 1992 | 3 | 6 1/4 | 101 1/2 | Morgan Stanley | 5.784 | |
| State BK of NSW | 15bn | 1993 | 4 | 6 1/4 | 101 1/2 | Nomura Int | 5.890 | |
| Sirocentral Vienna | 10bn | 1993 | 4 | (i) | 101 1/2 | Daiwa (Europe) | - | |
| State BK of Australia | 3.5bn | 1992 | 3 | 7 1/2 | 101 1/2 | Nomura Int | 7.071 | |
| Alliance & Leicester | 10bn | 1992 | 3 | 6.3 | 101 1/2 | Nikko Securities | 5.788 | |
| National BK of Canada | 10bn | 1993 | 4 | 6 1/4 | 101 1/2 | Sanwa Int | 5.943 | |
| Elkraft Power Co. | 2bn | 1993 | 4 | (j) | 101 1/2 | Sanwa Int | - | |
| Comptone Bancario | 15bn | 1993 | 4 | 6.50 | 101 1/2 | IST Int Ltd | 5.833 | |
| Cariplo | 10bn | 1993 | 4 | 6 1/4 | 101 1/2 | Nomura Int | 5.890 | |
| Kansallis Osk.Pan. | 5bn | 1993 | 4 | 8 1/2 (p) | 93 1/2 | Daiwa (Europe) | 8.404 | |
| Kansallis Osk.Pan. | 0.5bn | 1993 | 4 | 8 1/2 (p) | 101 1/2 | Daiwa (Europe) | 8.084 | |
| CIBC | 25n | 1990 | 1 | (f) | 100 1/2 | Mitsubishi Finance | - | |
| CIBC | 15n | 1990 | 1 | (f) | 100 1/2 | Mitsubishi Finance | - | |
| Kingdom of Denmark | 30bn | 1995 | 6 | 6 1/4 | 101 1/2 | LTCC Int | 5.895 | |
| Electricite de France | 30bn | 1995 | 6 | 7.1 | 101 1/2 | Nomura Int | 6.895 | |
| Skiopbank | 3bn | 1992 | 3 | (k) | 101 1/2 | Yamaichi Int | 6.895 | |
| Industrial Cred.Corp | 3bn | 1993 | 4 | (l) | 120 | LTCC Int | - | |
| Swedish Nat.Hous.Fin. | 10bn | 1995 | 6 | 6 1/4 | 101 1/2 | Nomura Securities | 5.895 | |
| LUXEMBOURG FRANCS | | | | | | | | |
| Council of Europe | 300 | 1993 | 4 | 9 1/2 | 101 1/2 | Credit European | 9.113 | |
| Renault Acceptance | 300 | 1993 | 4 | 9 1/2 | 101.50 | Credit European | 9.237 | |
| Cera Bk.Lux | 300 | 1993 | 4 | 9 1/2 | 101.50 | Credit European | 9.237 | |
| Caesae Cent.Railfaisant | 300 | 1993 | 4 | 9 1/2 | 101 | B.C.E.E. | 9.190 | |
| Rabo Bk.Lux | 300 | 1993 | 4 | 9 1/2 | 101 1/2 | B.C.E.E. | 9.113 | |
| K.B.Lux | 300 | 1993 | 4 | 9 1/2 | 101 1/2 | B.C.E.E. | 7.547 | |
| Sparakasse | 300 | 1993 | 4 | 9 1/2 | 100 1/2 | B.G.L. | 9.306 | |
| Svenska Handelsbanken | 300 | 1993 | 4 | 9 1/2 | 101.18 | B.I.L. | 9.135 | |

This announcement appears as a matter of record only

THE GOVERNMENT OF ISRAEL
for
THE STATE OF ISRAEL
(as borrower)

US\$50,000,000
MEDIUM TERM FACILITY

Initiated and syndicated by

**THE LONDON BRANCH
UNITED MIZRAHI BANK LIMITED**

MIRROR GROUP PLC

US\$20,000,000
MEDIUM TERM FACILITY

Initiated and arranged by

**THE LONDON BRANCH
UNITED MIZRAHI BANK LIMITED**

THE ISRAEL ELECTRIC CORPORATION LIMITED
(as borrower)

US\$40,000,000
COMPOSITE SECURED TRADE FACILITIES

Initiated and arranged by

**THE LONDON BRANCH
UNITED MIZRAHI BANK LIMITED**

POLLY PECK INTERNATIONAL PLC

US\$7,000,000
COMMITTED CREDIT FACILITY

Initiated and arranged by

**THE LONDON BRANCH
UNITED MIZRAHI BANK LIMITED**

GERBER FOODS

£8,000,000
COMMITTED BILL DISCOUNT FACILITY

Initiated and arranged by

**THE LONDON BRANCH
UNITED MIZRAHI BANK LIMITED**

POLLY PECK INTERNATIONAL PLC


US\$5,000,000
REVOLVING CREDIT FACILITY

Initiated and arranged by

**THE LONDON BRANCH
UNITED MIZRAHI BANK LIMITED**

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INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Trade deficit poses further threats

LAST FRIDAY, a critically important barrage of statistical releases had less effect on the financial markets than a fan-tastic rumour that Panama had declared war on the US.

The penchant for quixotic causes presumably had something to do with seasonal high spirits, but there may have been another reason for investors' apparent indifference to economic facts.

The PPI for the first 11 months of this year, however, has grown at an annual rate of 4.6 per cent, much higher than the 3.8 per cent of 1988.

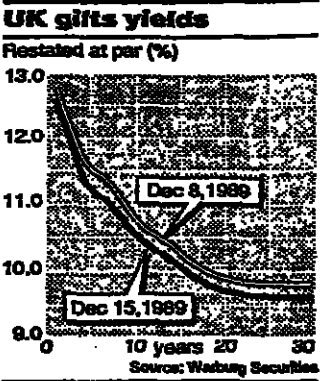
Given that energy prices are again rising sharply this winter, it would seem premature for the Fed to declare a victory.

UK GILTS

Overseas investors push up prices

THE GILT-EDGED securities market ended on a firm note on Friday, extending a mini-rally that has been under way for nearly two weeks.

It appears that the strength of the market has more to do with the motivations of overseas investors switching from US Treasuries and German Bunds into gilts.



UK gilt yields

Over the past month the Treasury has given serious thought to the need for higher interest rates - in spite of the view at the Bank of England that 14 per cent would leave done the job.

US MONEY MARKET RATES (%)

Table with 5 columns: Instrument, Last Friday, 1 week ago, 4 wks ago, 12-month Low. Includes Fed Funds, Treasury bills, and commercial paper.

US BOND PRICES AND YIELDS (%)

Table with 5 columns: Instrument, Last Friday, Change on wk, Yield, 1 week ago, 4 wks ago. Includes Treasury and corporate bonds.

NIKI TOKYO BOND INDEX

Table showing performance index for NIKI Tokyo Bond Index from Dec 1985 to Dec 1989, with columns for index value and percentage change.

EUROMARKET TURNOVER (\$m)

Table showing primary and secondary market turnover for various currencies (USD, DEM, GBP, etc.) in billions of dollars.

As a result, the Group of Seven and the currency speculators would for once be pushing in the same direction - in favour of a lower dollar.

Britain's labour market still appears to be tightening, although possibly at a slower rate, and this is supporting the pressure on prices at the retail level.

Disappointing as the data were, from an inflation point of view, they support the case of those looking for signs of a weak economy.

Advertisement for Q.P. Corporation featuring a cartoon character, the text 'Q.P. Corporation U.S. \$150,000,000 3 1/2 per cent. Bonds 1994 with Warrants', and a list of international financial institutions.

FT/AIBD INTERNATIONAL BOND SERVICE

Large table listing international bond services with columns for country, instrument, price, and yield. Includes entries for Australia, Canada, France, Germany, etc.

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in million of currency units except for Yen bonds, where it is in billions.

INTERNATIONAL COMPANIES AND FINANCE

Chase Corp posts biggest ever loss by NZ company

By Andrew Pirie in Wellington

CHASE Corporation, the property and investment group, has reported the biggest-ever loss from a New Zealand company, of NZ\$941m (US\$600m) for the twelve months to June 30.

The loss leaves the beleaguered company — whose assets have been in the hands of a government-appointed manager since July — with shareholders funds showing a deficit of NZ\$940m.

But Mr Colin Reynolds, executive chairman, said in Auckland over the weekend that the company would survive. He outlined a plan for it to emerge from the statutory management and to be restructured as a small, property company by the middle of next year.

The plan includes offering repayment deals, probably at a significant discount, to Swiss bond holders and the holders of Eurobonds by the end of February. This would be followed by proposals to unsecured

lenders, with some properties being released to secured creditors.

The huge loss easily exceeds the previous worst by a New Zealand company, the NZ\$400m deficit announced by Bank of New Zealand in June.

Three quarters of the Chase loss came from extraordinary write-downs on investments, following a decision to value the company's assets at net realisable value, rather than on a going-concern basis. The operating loss of NZ\$205m also included substantial devaluations on the group's property holdings.

Nearly NZ\$250m of the loss came from write-downs on Chase's two main assets: Farmers, the New Zealand department store chain; and a 50 per cent stake in Inter-Chase, an Australian group which owns a large shopping complex in Brisbane. Neither of these assets is included in the statutory management which is effectively an all-powerful receivership covering Chase's New Zealand property interests.

The Government's decision to appoint a manager for the NZ\$1.3bn property portfolio was criticised strongly by Chase's bankers, particularly by those which lost the power to exercise the security they held over individual buildings.

But the Government said the move was needed to prevent a wholesale destruction of the New Zealand property market, already suffering its worst-ever recession.

Mr Paul Preston, the statutory manager, predicted over the weekend that his job would continue for a further six months as the affairs of Chase were reorganised.

Mr Reynolds said he expected to stay on as director of the reorganised company, which he referred to as Chase 1990, though with a new chairman and board.



Jacques Calvet executive XM car ahead of target

Citroën sees record sales of FF66bn

By William Dawkins in Paris

CITROËN, part of PSA, the leading French car group, expects sales to rise by 16.5 per cent to a record FF66.1bn (\$11.15bn) this year.

However, Mr Jacques Calvet, president of PSA, said the seven-week long autumn strike at Peugeot, the group's other main division, would take FF3bn out of PSA's total annual turnover, which reached FF73.5bn last year.

He gave no profits forecasts for Citroën, which does not publish separate accounts, but revealed that sales of the XM, the company's new executive model, were running slightly ahead of target. The XM, launched in May, is Citroën's part of PSA's ambitious two-pronged attack on the executive car market, with the Peugeot 605, launched in September.

Citroën had received orders for 23,000 XMs in France by the end of November, and looked on track to exceed by a small margin the end-of-year target of 25,000.

Meanwhile, 6,700 foreign orders for XMs had been received over the same period, more than the end of year target of 6,000, Mr Calvet told Citroën's annual press conference.

"In 1990 we will concentrate on deepening the XM's presence both in and outside Europe. . . We want to be the first in Europe in 1992-93 and to achieve that both companies in the group will do what is necessary," he said.

Hungary sells travel stake to West

By Judy Dempsey in Budapest

IBUSZ, one of Hungary's largest travel agents, has been partially sold to an international consortium, headed by Girozentrale Bank der Oesterreichischen Sparkassen, Austria's second largest bank.

The deal, which has proved controversial in Hungary, involves the sale of 40 per cent of Ibusz. It means the company will become one of the first East European companies to be listed on a Western stock exchange, possibly as early as next year. It will also be listed on Budapest's fledgling stock exchange.

Ibusz, which is desperately trying to stave off mounting competition from Cooptourist, a travel company which started up over five years ago and which has since eroded Ibusz's long monopoly over the

tourism sector, will increase its share capital from its current 800m forints to 1.2bn forints (\$15m).

The much-needed capital will be earmarked for improving the company's services.

The Hungarian authorities will welcome the capital. They are saddled with a budget deficit which must be reduced by 21bn forints to 10bn forints for 1990, and face a hard-currency debt of \$20m, one of the highest per capita in Eastern Europe.

The company intends to offer 30 per cent of the registered shares to western investors, while the remaining 10 per cent will be offered to Hungarians, of which half will be needed capital to invest and upgrade its services.

At the time, there was sharp criticism from within Ibusz of Ibusz is purely economic. Mrs Erika Szemenkai, the well-respected manager of Ibusz, said on Friday, that she expected the group to record a turnover of more than 1bn forints, thanks to the growing number of tourists coming to Hungary.

Mr Imre Gellai, the Hungarian deputy trade minister pointed out that Ibusz was one of the country's best-run companies and had therefore been chosen because of its high profile in the tourist sector.

Only a year ago, Ibusz faced substantial problems following the introduction of a company tax and turnover tax system which left it without much-needed capital to invest and upgrade its services.

At the time, there was sharp criticism from within Ibusz that good companies were being unfairly penalised by the authorities for running a tight ship.

But the sale has also a political dimension to it, and one which is likely to be voiced throughout Eastern Europe, as the economic reforms take root.

The fear among some Hungarians, and this was aired during a meeting of the old conservative Hungarian Socialist Workers' (communist) party congress, which was held in Budapest at the weekend, is that only the best Hungarian companies will be sold off to the West. "Our best assets are walking out of the country," is a complaint heard often from those anxious that the country will be left with inefficient and uncompetitive industries.

Non-chemist wins top BASF job

By Haig Simonian in Frankfurt

BASF, the leading West German chemicals group, has broken sharply with tradition by appointing Mr Jürgen Strube, a non-chemist, to succeed Mr Hans Albers, its long-standing chief executive, who retires next summer.

Unlike his predecessors at the top of the company, which had sales last year of DM45bn (\$28bn), Mr Strube, 50, is a lawyer rather than a chemist. The move follows the precedent set by Bayer, the big chemicals group, which in 1984 chose Mr Hermann Josef Strenger, a non-chemist as its chief executive.

With a reputation as a good

communicator, Mr Strube worked for some time as head of BASF's important US operations, which now account for a fifth of total sales, before returning to Germany, where he is responsible for the foam plastics, polyolefins and PVC divisions, as well as information systems. Duties outside Germany include overall responsibility for the Brazilian and Latin American operating units.

Mr Strube is seen as more outward-going and less tactician than Mr Albers, a chemical industry veteran. This may have been a factor influencing BASF's supervisory board in its decision.

Like Hoechst and Bayer, BASF's two big domestic rivals, the group is facing the probable challenge of lower volumes in its mainstream businesses, and the certainty of greater pressure than ever before on environmental issues, especially at home. The choice of Mr Strube may isolate Mr Ruediger Schmitz, 51, BASF's highly-regarded finance director, who was another potential successor to Mr Albers. The company chose Mr Wolfgang Jentzsch, 57, a mainline chemist, and another contender for Mr Albers's position, as deputy chief executive.

Kodak reshape to cost \$500m this year

By Roderick Oram in New York

EASTMAN KODAK expects previously-announced restructuring actions will reduce its net profits by about \$27m in the fourth quarter and about \$50m for the full year.

The photographic and diversified industrial group said in late summer that it would embark on its fourth round of cost cutting and restructuring this decade. It had not given a figure for the charge against earnings. Of the full-year

charge, \$22m was taken in the second quarter. The company said the full-year charges would cut its operating income by about \$85m, substantially more than Wall Street analysts had expected.

Cross-border takeovers surge

By Nikki Tail

CROSS-BORDER acquisition activity in Europe surged to record levels in the third quarter of 1989, according to figures published by Translink's European Deal Review.

Translink calculates that the total value of deals rose to Ecu18.1bn (\$15.4bn), almost double the Ecu10.2bn-worth of deals seen in the second quarter and over three times the first-quarter figure of Ecu5.14bn.

The rise in the number of deals has been slightly less dramatic — up from 235 in the first quarter and 341 in the second, to 377 in the third.

American companies were the most significant acquirers in the third quarter, spending some Ecu6.5bn and accounting for more than one-third of the European deal flow.

French companies, the most active spenders in the first half of the year, forked out Ecu3.72bn in the third quarter.

West Germany featured as the third-most-significant acquiring nation in the July-September period, although this was partly thanks to the completion of the joint bid by Britain's General Electric Com-

Thyssen leaps 21% to DM825m

By Our Financial Staff

THYSSEN, the diversified West German heavy-industrial group, has raised its net profits by 21 per cent to DM825m (\$480m) for 1988-1989, from DM680m, in what the company described as its best year since it was founded.

The group also said the current year was going well, with most of its companies having a high level of orders in hand. Growth in sales and profits would therefore continue.

In the year under review group sales grew 17 per cent to DM34.2bn from DM29.2bn while pre-tax profits rose to DM1.72bn from DM1.16bn.

Thyssen's biggest sector, Thyssen Handelsunion, the trading and services division, raised sales to DM11.8bn from DM12.8bn. The group's second biggest division, Thyssen Stahl, the steel unit, increased sales by 17 per cent to DM11.5bn. Sales of the speciality steel division rose 30 per cent to DM5.1bn.

Thyssen said it planned to continue boosting growth by investing in its existing businesses and related areas. It would also continue to look at expanding through acquisitions, though it was planning no takeovers at present.

Mack Trucks fails to comply with covenants

By Roderick Oram

MACK TRUCKS, the US truck maker 45 per cent owned by Renault of France, said it is failing to comply with some covenants on \$308m of bank loans by its financial subsidiary.

The news, indicating a further deepening of Mack's problems, sent its stock sliding down 1 1/4 to 8 1/2 on Friday. Only a month ago, the market was rattled when the company reported an unexpectedly large third-quarter loss and said its outlook was bleak.

Hit by a sharp contraction of the US market, Mack's production and sales of heavy-duty trucks fell by 37 and 34 per cent respectively during the third quarter. Its sales of medium-duty trucks dropped 24 per cent. It ran up a third-quarter loss of \$97.5m on sales of \$367.4m against a net profit of \$2.7m on \$501m a year earlier.

The company said it had failed to keep current liabilities to no more than 1.6 times current tangible net worth. The company is seeking waivers.

Fiat pays L15bn for Innocenti

By John Wyles in Rome

FIAT AUTO is to pay L15.3bn (\$12bn) for its controlling share of the distribution company which markets Innocenti motor cars. A price has yet to be fixed for its 49 per cent holding in the production company responsible for the Maserati.

The purchase price for 51 per cent of Innocenti Marketing was revealed at the end of last week by Mr Alejandro De Tomaso who has controlled Innocenti-Maserati since the mid-1970s. He forecast a loss of between L5bn and L8bn this year on sales of L342bn.

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FINANCIAL TIMES SURVEY



Glasnost has been good for the Finns. For the first time in decades, Helsinki is free to pursue its

self-interest without worrying about how its giant neighbour Moscow will react. Increasingly, this path is leading it into the arms of western Europe. Robert Taylor reports

Westward bound

FINLAND finds itself this winter in an enviable position. For the first time since before the Second World War it looks free to pursue its economic self-interest in the markets of western Europe without any need to worry about whether this will in some way compromise its legitimate political concern to safeguard friendly relations with its giant neighbour the Soviet Union.

Over many years Finnish governments have had to perform a sensitive balancing act to preserve their country's identity as a Nordic democracy with a prosperous market economy but also take care to act in accordance with its geopolitical position on the edge of the Soviet empire.

Now thanks to President Mikhail Gorbachev's benign influence this intricate strategy has become much easier to carry out. On his three day visit to Finland in October the Soviet leader, assured his delighted hosts that Moscow recognised the country's neutrality without equivocation. The slur of Finlandisation that unfairly stigmatised Finland as a quasi-satellite of the Soviet Union in the eyes of many in the West over the past 20 years has been laid to rest.

The Gorbachev declaration has removed the element of

ambiguity from Finnish-Soviet relations," declares Mr Max Jakobson, Finland's distinguished former diplomat. Certainly the ambivalence towards Finland of the Brezhnev era is over. However, what delighted the Finns even more this autumn was the Soviet leader's relaxed attitude about what their future relations might be with the European Community. He made it quite plain that it was for Finland itself and not anybody else to decide the nature of the country's evolving ties with the EC.

In fact, there has never been any question of Finland seeking to join the EC as a full member. On this point the Soviet attitude is irrelevant to what has always come down to a purely Finnish assessment of its own national self-interest. The Finnish government reiterated its lack of interest in such a step in its policy declaration on the EC which it presented to Parliament last month, when it asserted that the country's neutrality in defence and foreign policy rules out any Finnish involvement in political integration with the countries of western Europe.

But on the other hand, to the surprise of many outsiders, Finland seems eager through joint action in the European Free Trade Association



A market area in Helsinki, the Finnish capital. Finland finds itself in the position of being master of its own affairs, free from the interference of its powerful neighbour the Soviet Union

FINLAND

tion - to build up the European Economic Space through negotiations with the EC next year, even though this will inevitably involve a substantial loss of sovereignty for Finland during the 1990s as the EES - once an ambiguous rhetorical phrase when devised five years ago - becomes a reality covering at least 18 countries of Europe.

Indeed, Finnish policy-makers are keen nowadays to insist that their country will not only carry through the necessary internal reforms to open up Finland to the four freedoms enshrined in the EC's move to a dynamic internal market by the end of 1992 but also implement the thousands of rules and regulations that already apply inside the EC among its member states.

Working closely with Sweden in particular over recent months, the Finnish government has committed itself to a wide-ranging strategy that will eventually bring the country much closer to the economic realities of western Europe. In its enthusiasm for the EES it can rely on the full backing of Finland's employers and main trade union organisations. This will not mean the creation of a customs union but much more of an extended free trade area which could eventually bring the Finnish markka, among the other EFTA currencies, into the exchange rate mechanism of the European Monetary System.

Of course, there are limits to

just how far Finland is prepared to move in a Brussels direction. Most Finns remain determined, for example, to safeguard the ownership of their forests from foreign hands. As nearly half the families in Finland own some part of their country's richest natural heritage, the emotional force of this question is understandable. And Finnish policy-makers are relieved to see agriculture excluded from the EES. Finland may be willing to open up much of its economy to foreign-owned companies and banks but the strength of nationalist feelings in the country must never be underestimated.

Finland's increasing dependence on EC markets - last year 44.2 per cent of its exports went there while 43.5 per cent of its imports came from EC countries - may force it to make the best deal it can with the EC. Moreover at least three quarters of all Finnish overseas business is already conducted inside the putative EES.

Yet the EC-EFTA process of integration into an EES cannot be pushed so far as to involve the sacrifice of positions thought vital for Finland's own perceived national interest. In

a crisis Finland realises it could rely on nobody except itself. This is the painful lesson the country learned 50 years ago last month when it was attacked by the Soviet Union.

It has ensured a strong note of realism in the country's foreign policy, what Mr Alpo Rasi, counsellor at the Ministry of Foreign Affairs, calls the "adoption of a doctrine under which independence is safeguarded by acknowledging the realities but not submitting to them."

Finland is no beacon of hope for the world's oppressed. Only 0.4 per cent of its residents are foreign born. No Soviet citizen has ever been welcomed as a refugee. Finland has never been encouraged as an escape route for Soviet dissidents. Immigration controls remain tight and the Finnish authorities look askance at the idea of making it easier for those who want political asylum to come to their country.

Finland may have a shortage of skilled labour at the moment but its impenetrable language, extreme climate in winter and geographical isolation would make it look an unattractive haven anyway for even the most desperate foreigners.

The Finnish government lost no time in rejecting Mr Gorbachev's offer to waive visa requirements between Finland and the Soviet Union. No doubt, most Finns would hate the idea of thousands of Russians descending on their affluent, settled way of life even if it might only involve a mammoth shopping expedition to Helsinki.

In fact, good relations with Moscow remain a necessary fact of life for Finland, as the Gorbachev autumn visit underlined. On his trip to Helsinki the Soviet leader placed a special emphasis on the long-term value of the 1948 treaty of Friendship, Co-operation and Mutual Assistance signed between the two countries at the height of triumphant Stalinism. Contrary to western opinion, this was never a vassal relationship but as Mr Gorbachev revealed it did lead on to the creation of what he called "a broad-based and varied network of ties" between the two countries. And Finnish politicians were often keen to maintain close relations with the Soviet regime that went far beyond the legendary hunting trips that President Urho Kekkonen used to make to the

Soviet Union.

During the time of high energy prices Soviet imports to Finland, chiefly of crude oil and gas, made up as much as 25 per cent of total Finnish trade but the proportion fell back in the 1980s to less than 15 per cent. Soviet-Finnish trade is still primarily administered through a centralised bilateral ruble-based clearing house system that dates back to 1947.

It still looks very much like a relationship between an advanced country (Finland) and a developing nation (Soviet Union), for nearly three quarters of Soviet exports to Finland consist of energy and raw materials, while the Finns in return send mainly finished industrial products.

Many policy-makers in Helsinki question whether the centralised system will last beyond the next five years, because it conflicts with the more flexible ways of doing business introduced through perestroika. There are now as many as 107 joint ventures (nearly half with Estonia) between Finland and the Soviet Union primarily in the construction and service sectors that lie outside the traditional system.

Increasingly Finnish companies are interested in schemes with the Soviet Union that involve commercial transactions carried out in convertible currencies. During the Gorbachev visit there was a good deal of talk about both coun-

tries working together in the Kola peninsula on large-scale industrial and environmental projects as well as exploring for gas reserves in the Barents sea.

The Finnish government is understandably cautious about prospects in the Soviet Union in the 1990s. After all, it has to live with whoever rules from the Kremlin. But the apparent end of the Cold War with the revolutionary changes this autumn in eastern Europe are encouraging Finland to believe that the country's unique balance between East and West will strengthen its mediating role as a force for stability in the European Security and Co-operation Process (CSCE) that was launched in 1970.

No wonder that for all their internal economic and political problems this autumn the Finns are in an optimistic mood. It is not only the peoples of eastern Europe who need to thank Mr Gorbachev for what is happening to them.

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FINLAND 3

Fifty years on the Winter War remains shrouded in myth and glory for most Finns, reports Robert Taylor

An indelible imprint on the collective conscience

THE Winter War continues to hold a tenacious grip over the collective memory of Finland's older generation. In the 50th anniversary year of the outbreak of that conflict books, exhibitions and a powerful widely acclaimed film have brought home to all Finns its continuing importance.

It is not hard to understand why. For 105 days - from November 30 1939 to March 13 1940 - the country's small forces held back the might of the Red Army after its unprovoked attack. An estimated 25,000 Finnish soldiers died in the conflict and 45,000 more were wounded but as many as 220,000 Russians also perished with a further 800,000 injured.

This was not to be the end of Finland's suffering. In June 1941 the country joined Hitler in his genocidal attack on the Soviet Union in order to recover the territories lost after the Winter War. The so-called Continuation War lasted until September 1944 when Finland negotiated an armistice with Stalin. As part of that settlement Finland was compelled to eject by force German troops based in the country. They proceeded to demonstrate their devotion to Finland by inflicting a scorched earth policy on Lapland.

An estimated 100,000 Finns were killed in the entire war out of a population of 4m. A million Russians also perished fighting over Finland. In the words of Finnish historian and diplomat Max Jakobson in his account of the conflict, during the Second World War: "Finland was defeated but she was not conquered" (Finland Survived; Otava Publishing Co, Helsinki 1984 edition).

The country's resistance to the Soviet invader in the winter of 1939-40 and again in June 1941 "succeeded in raising the cost of breaking it to a point which the Soviet leaders must have regarded as excessive." Max Jakobson goes on: "As a result, of all the nations on the continent of Europe involved in the Second World War, only Finland escaped an enemy occupation. Her social fabric remained intact and the continuity of her political institutions unbroken. In this fact, which is the key to understanding her present position as an independent nation, lies an achievement that tran-

sends the conventional meaning of such terms as defeat or victory. For in the end Finland did not fight for Karelia or Petsamo. She did not fight for any abstract principles or ideals. She fought for national survival."

And he concluded: "Finland survived. This may seem a pitifully unheroic end to a story of so much effort and sacrifice, suffering and blood. But for a small nation, in the iron times of the Second World War, survival was a rare triumph."

Indeed, for a brief period Finland was the centre of admiring world attention. The bloody struggle in the north diverted attention away from the embarrassment of their own phony war with Hitler on the western front. A wave of public sympathy for the Finns swept across the democratic world. The issue seemed so simple. Here were a small, brave, democratic people fighting for their rights against a totalitarian state, a veritable David pitted against Goliath.

But sympathy was never enough. The Swedish government did little except urge the Finns to surrender, though many Swedes sent food and blankets and more than 2,000 Swedes volunteered to fight in Finland, which was once part of their Baltic Empire. In the words of Sweden's prime minister Per Albin Hansson most Swedes were "selfish about peace" and prepared to tolerate Finland's defeat.

For Britain and France the war in Finland opened up the possibility of taking the conflict against Nazi Germany into northern Europe. Winston Churchill in particular wanted to exploit the Finnish-Soviet struggle as a pretext to occupy parts of Norway and Sweden and cut off Hitler's iron ore supplies for his war machine.

An Anglo-German expeditionary force was even mobilised with the avowed aim of going to Finland's aid though it never left port because the Finnish government sued for peace with Stalin, cleverly playing the threat of Anglo-French intervention as a card to convince the Soviet Union to settle on less than total victory.

It was just as well the Winter War ended in mid-March 1940. By agreeing to Stalin's tough terms Finland saved not



President Mauno Koivisto with Mikhail Gorbachev during the Soviet leader's visit to Finland in October, thanks to glasnost Soviet historians - after more than 40 years of silence - have concluded that Stalin was the undoubted aggressor in the Winter War

just itself from annihilation.

Fifty years on the Winter War remains shrouded in myth and glory for most Finns and who can blame them. After all, by fighting the Red Army to a virtual standstill, the Finns did not suffer the fate of the Baltic states to the south who conceded Stalin's threatening demands for military bases on their soil and a year later found themselves annexed into the Soviet Union.

There can be little doubt what the fate of Finland would have been if the country had failed to defend its independence by force. The country would also have disappeared

into Stalin's evil Empire.

In November 1939 Stalin may well have believed that Finland was a corrupt bourgeois society whose oppressed masses were only waiting for the day of Communist liberation. But the puppet regime in exile he had planned to rule Finland led by Otto Kussinen, Finnish secretary general of the Comintern, failed to find any popular support in the country at all and it was quickly removed from the scene.

Stalin had thought his forces would be in Helsinki within a few days. His complacency was quickly shattered. On the bat-

tlefield the Finnish troops made up for their lack of numbers and weaponry by greater flexibility and enormous courage. They were helped by one of the worst recorded winters in Finnish history with temperatures falling to 50 deg C below zero even in December.

Many Soviet soldiers lacked the basic equipment to withstand the cold and froze to death. Their war machine was found to be clumsy and inept, unable to cope with the savage conditions. Moreover, the Red Army was badly led by inexperienced officers after Stalin's purge of the high command only a year earlier. There was

to be no Soviet blitzkrieg.

Of course Finland could not have held out indefinitely but very little of the country had been occupied by March 1940. Even on the vulnerable Karelian Isthmus the Finns held firm until the armistice of March 13. It is understandable why Max Jakobson calls the end a "victory in defeat."

Was the war avoidable? Thanks to glasnost under President Mikhail Gorbachev Soviet historians - after more than 40 years of silence - have reached the conclusion that Stalin and the Soviet Union were the undoubted aggressors, that the intention was to

absorb Finland into the Soviet Empire as a result of the August 1939 Nazi-Soviet pact. The swift conversion of Soviet historiography only in the past few weeks to such a view has made many Finnish academics rather uneasy.

In fact, the culpability for the cause of the war looks less clear cut 50 years on. In a speech to the Paasikivi Society on November 27 this year President Mauno Koivisto declared that the crucial question that had to be posed and answered about the Winter War was: "Would it have been useful for the Soviet Union to show confidence in Finland's will and ability to prevent the use of her territory for offensive purposes against the Soviet Union? As he pointed out: "Seeking certainty in this respect led to great suffering on both sides."

Stalin's limited aims were conditioned by an understandable need to protect his country from invasion. Leningrad was particularly vulnerable to attack as it was then only 20 miles from the Finnish border. In the protracted negotiations with the Finns in October-November 1939 Stalin first called for a treaty of mutual assistance giving the Soviet government the right of military intervention in Finland if that country was attacked by another country.

But when rejected out of hand by the Finns it was never mentioned again. Instead Stalin told the Finns that the 1932 Soviet-Finnish non-aggression pact could be amended so neither side would join any alliance or grouping directly or indirectly hostile to the other. This was a change Finland accepted.

But the Soviet dictator also sought to secure the safety of Leningrad. This involved the ceding of islands by the Finnish government in the Gulf of Finland; a 30 year leased base on the south west tip of Finland at Hanko; and the Soviet annexation of territory on the Karelian Isthmus and the western part of the Rybachy peninsula on the Arctic coast. In return Stalin promised Finland territorial compensation in Soviet Karelia, twice as large as he was demanding.

By his standards Stalin displayed surprising magnanimity in the negotiations that he

attended personally more than once. But the Finnish government could not accept all of his demands, especially the creation of a Soviet naval base at Hanko and it sought to reassure him that Finland would remain neutral and not become a launching pad for any foreign power who wanted to invade the Soviet Union. Indeed, the initial Soviet demands were actually scaled down during the subsequent negotiations though the Finnish cabinet was unimpressed, interpreting each of Stalin's concessions as a sign of weakness.

As Max Jakobson points out Stalin's demands revealed his traditionalist thinking as a military strategist for when war with Nazi Germany came eventually in June 1941 none of the protections that he had sought did anything to stem Hitler's attack.

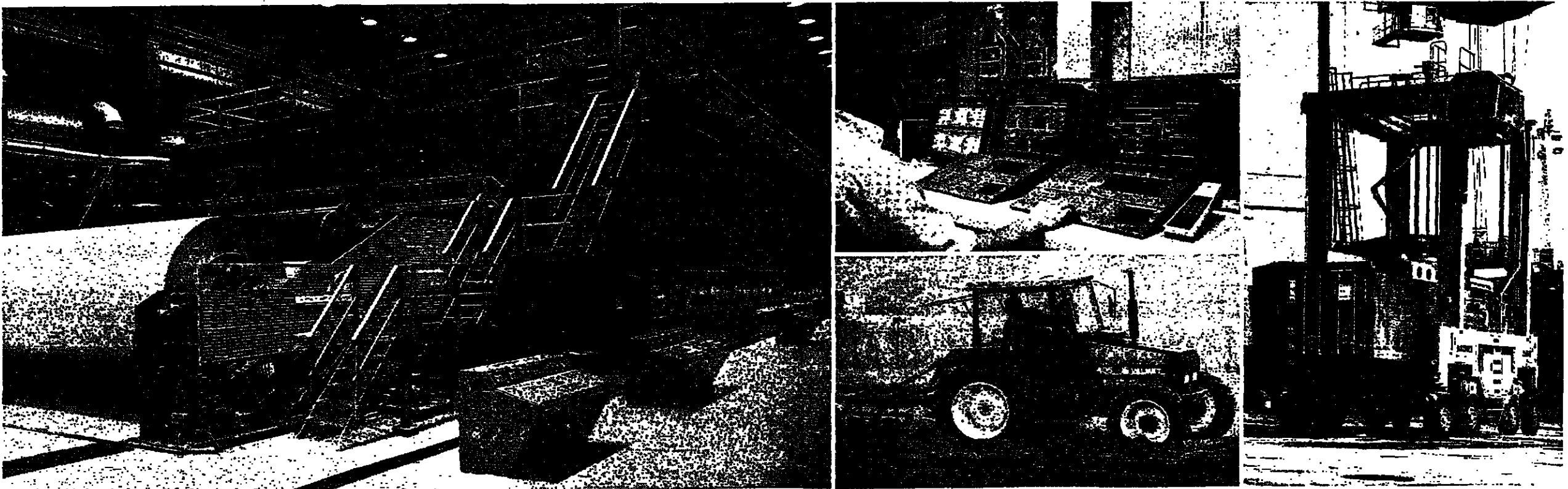
But the legendary Marshal Mannerheim, then chairman of the defence council and Juho Paasikivi, the main Finnish negotiator with him and later Finnish president, did not find what Stalin wanted unreasonable. Both men thought Soviet military interest and Finnish independence were reconcilable. Their view did not prevail.

Finland was forced to accept a much greater loss of territory than Stalin had ever desired before the Winter War. The Finns had to hand over a tenth of the country in Karelia where an eighth of the population lived including Finland's second biggest city, Viipuri, as well as the leasing of Hanko as a military base and other territory in northern Finland.

Max Jakobson sees the Winter War as a "turning point" for Finland. "It gave us a sense of national unity which we had lacked since independence and which has stayed to this day," he says. "The outcome also made us feel we had been let down by others, that we can only trust ourselves. This has brought a certain disillusioned way of looking at international politics but also a healthy attitude based on self-reliance. The West has never really understood our position. But neither occupied nor humiliated in the war we came to recognise that it was the strength we found within ourselves that saved us."

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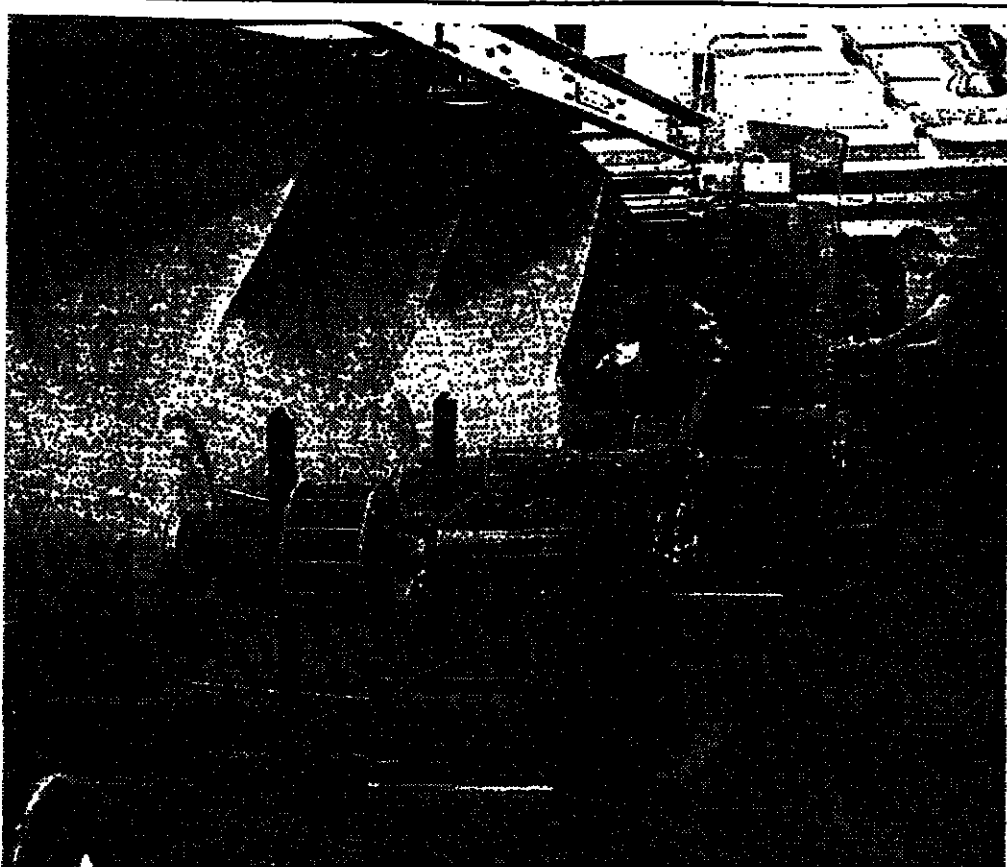
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FINLAND 4



Paper conversion division of Amer Group, one of Finland's largest paper and pulp groups

ENSO-GUTZEIT

European catalyst

ENSO-GUTZEIT, Finland's third largest paper and pulp company, made history last October when it became a majority partner in the Soviet Union's first overseas joint venture.

Finland has secured good economic ties with its giant eastern neighbour through five-year trade accords that work on a semi-barter clearing-house scheme. Yet necessity aside, Finnish companies are quick to point out that they are not motivated by goodwill gestures when doing business with the USSR, but by profits.

The new joint venture, Enso-cell, which will be 80 per cent owned by Enso-Gutzeit and 20 per cent by the Soviet company Karelesprom, will produce upon the completion of the Uimaharju mill in 1992 435,000 tonnes of pulp a year and will have a raw material input of between 500,000 cubic metres and 550,000 cu m of birch wood.

The raw material for the Uimaharju plant, located about 400 km north-east of Helsinki and near the Soviet-Finnish border, will come from the USSR. The price of the raw material will be determined by "market prices" and will be paid to the Soviets in hard currency. This arrangement is significant considering that trade between both countries has been largely carried out on a barter basis.

Although the Finns will manage the new plant, Enso-Gutzeit officials say that the significance of the venture will be in serving as a window to the West for the USSR forest industry.

Like all big Finnish paper and pulp companies, Enso-Gutzeit's main markets are in

western Europe, generating between 80 per cent and 85 per cent of the group's annual net sales of Fm9.7bn in 1988.

"Although Finnish state-owned companies are run just like private ones, a challenge in the 1990s is to find suitable schemes to attract investment capital into the company," said Mr Jukka Härmälä, who was appointed last August as Enso-Gutzeit's new chairman and chief operating officer.

Enso-Gutzeit, one of the few Finnish companies quoted on the London Stock Exchange, has in recent years been divesting from sectors that are not forestry related. Mr Härmälä, who expects more such moves in the future, believes that Enso-Gutzeit will continue to invest and be a leading European market leader in paperboard in the 1990s with plans to increase capacity in the group's fine paper division, especially in copy paper.

Enso-Gutzeit controls 40 per cent of the western European paperboard market. Net sales for the division in 1988 reached Fm2.23bn while the group's fine paper sector reported sales of Fm1.56bn last year.

Many analysts believe that Finland's paper and pulp sector is saturated, though as Mr Härmälä points out, the coming years could see a period of mergers between Finnish companies. However he rules out any cross-border marriages. "I don't believe that there will be any mergers in the near future between Finnish and Swedish paper and pulp companies. If I have to estimate how many forestry companies there will be in Finland in the future, I would say four leading ones."

At present, there are about

11 leading companies, the biggest of which is 30th in the league of global players. However, size, according to Mr Härmälä, is unlikely to be a crucial factor in determining success in the next decade.

The forestry industry is the backbone of Finland's economy and it is no wonder that Finns have been sensitive about allowing foreign companies a foothold in the sector.

Even if these existing ownership restrictions are lifted, Mr Härmälä has his doubts that foreign forestry companies will enter the Finnish market. "Since we are strong in this industry, I believe that acquisitions will happen from Finland to western Europe and not the other way around," he said.

Enrique Tessieri



National disaster: Wartsila shipyard, whose collapse has been described as a catastrophe

SHIPPING

Industry pride sinks to an all-time low

FOR THE 5m people of Finland, the country's shipbuilding industry has for many years been the source of great national pride.

However, this national pride received a severe battering in October when Wartsila Marine, one of Europe's largest privately-owned shipbuilding companies, filed for bankruptcy, just two months after the Government had stepped in to bail out the loss-laden company.

Today, Wartsila Corporation, the diesel, securities and sanitation equipments group that originally owned 70 per cent of the shipbuilding company together with state-owned Valmet's 30 per cent stake, blames its marine division's acute economic problems on external factors.

These included high European Community subsidies to member states' shipyards, the 4 per cent revaluation of the Finnish markka last March, rising inflation (from 5.1 per cent in 1988 to more than 7 per cent for 1989), as well as labour shortages and no new ship orders from the USSR for the past three years.

Picking up the scattered pieces of Finland's shipbuilding industry has not been an easy political task. It has been best described as a tragedy that has put insurmountable obstacles and queries over the future role of the shipbuilding industry.

Analysts also believe that part of the problems that drove Wartsila Marine into bankruptcy only two years after its creation in 1987, was the Government and Wartsila's excessively rosy outlook of the global shipbuilding industry.

With low oil prices continuing to undermine Helsinki-Moscow trade, Finland, which of the western European countries carries least weight in Brussels, attempted without luck to convince the EC to lower subsidies to member countries' shipbuilding industries.

Masa-Yards, the company created last November from the wreckage of Wartsila Marine, was largely set up to restore Finland's tarnished image, secure the bulk of the 6,500 jobs as well as renegotiate the prices of ships under order. The construction of these vessels had become uneconomical thanks to the deterioration of the Finnish economy.

Mr Martin Saarikangas, the new chief executive of Masa-Yards, feels that his new company will have a much lighter organisation than Wartsila Marine. He felt that one important factor that led to Wartsila Marine's fall from grace was that its labour force of 6,500 was too small to handle all the vessel orders and therefore the company was forced to seek sub-contractors. Last August, Wartsila's marine division had

orders totalling around Fm5bn covering some 16 vessels.

Masa-Yards began life with an equity stake of Fm337m, which comprises Fm100m from the state, Fm100m from Union Bank of Finland (UBF) and the remaining Fm170m from various shipping companies such as Carnival Cruise Lines, Edco, Svea Line.

One of the biggest surprises during the creation of Masa-Yards was that Wartsila would not be represented on the new company's board. Although Wartsila was originally supposed to be part of Masa-Yards through an equity holding of Fm200m, the money was, instead, taken by the new entity as a subordinate loan.

"This bankruptcy is the biggest catastrophe for the country. One of the things we can do by establishing Masa-Yards is to try to raise the image of Finland," Mr Saarikangas said just two days before his company was registered.

The new chief of Masa-Yards also stressed that the future of his company was dependent on subsidies. He is unsure about the extent of the subsidies the company will receive but said he hoped that the yard would be given an opportunity to stand on its own two feet.

Mr Saarikangas also rejected statements that his company was created only to be later merged with Finland's two other shipbuilding companies, Rauma-Repola and Holming, both of which are also privately owned and whose marine divisions are operating in the red. Rauma-Repola's shipbuilding division incurred a loss of Fm266m on sales of Fm1.95bn in 1988.

Could the Wartsila Marine order be averted if the Government had granted subsidies to Finland's shipbuilding industry in the first place just as EC shipyards had received from Brussels?

Mr Ilkka Suominen, the Minister of Trade and Industry, disagrees. According to him, demands placed by Finland's three shipbuilders during talks with the Government last year to merge the three into one company, would have been a more expensive solution than allowing what transpired to be Finland's largest bankruptcy.

In order to ensure that Masa-Yards would not assume Wartsila's debts, a new financing package was created last month, stemming mainly from discrepancies between the Government and Wartsila on the true losses of the shipbuilder's marine division.

This package works on a sliding-scale scheme with a maximum liability of Fm1.7bn. Wartsila's maximum liability in this package is limited to Fm700m, the state Fm100m, UBF and Postipankki jointly Fm240m and Valmet Fm70m.

Enrique Tessieri

DEREGULATION

The high price of opening up

CONVINCING some sectors of Finnish industry that deregulation and the dismantling of domestic cartels will bring a healthier economic future will be one of the main challenges facing the authorities in Finland in the 1990s, according to Mr Matti Purasjoki, who heads the Office of Free Competition (OFC).

The OFC employs 47 and works with an annual budget of Fm10m. Its main task is to enforce the Act on Restrictive Business Practices which came into effect on October 1 1988. In

spite of its meagre resources, the OFC is a marked improvement from the days when the public interest was defended by a competition ombudsman with a staff of six employees.

Although analysts believe that Finland is heading in the right direction with respect to deregulation, the very process has, however, brought its own share of chaos as well as inflationary pressure on the economy, such as in 1988-87 when restrictions on the financial markets were lifted, making loans more easily accessible. This subsequently fuelled demand in the construction and real estate sector, forcing up house prices nationally by 36 per cent and 40 per cent in Helsinki last year. Helsinki has become western Europe's second most expensive city, after Oslo.

"Deregulating and demopolising part of the market that is dominated by a few companies is the high price the Finnish economy will have to pay for opening up. This, naturally, will stabilise itself in the long run. We have to understand that unhealthy competition is like putting a noose around the neck of the Finnish economy," said Mr Purasjoki.

The head of the OFC, which is a part of the Ministry of Trade and Industry, says that the deterioration of the economy with inflation rising from 5.1 per cent to more than 7 per cent this year, is mainly due to three factors: lack of competition in the industrial and labour markets, and Government economic policy.

"Our market is exactly the same as elsewhere in Scandinavia... we are big countries, have few people and the markets are small and traditional. The service sector, for example, is closed to competition, and it tries to make everyone happy by offering high incomes. The way these objectives were reached has not encouraged wider competition," he explained.

Another factor that has undermined competition has been local legislation that restricts foreign companies from establishing themselves in some key market areas.

Although foreign companies outside Scandinavia as a rule are able to own 100 per cent of a Finnish company, there are implicit restrictions that forbid foreign companies from participating in the real estate sector (which is dominated by a few companies), mining, basic forestry industry production and oil refining. These restrictions, however, may change in the near future.

Mr Purasjoki believes that

one of the OFC's greatest victories has been against horizontal price cartels. The campaign was launched last Christmas and already up to 80 price cartels cases out of 210 have been resolved.

Another accomplishment of deregulation has been the emergence of private radio stations while in the electricity market improvements have been considerable too. Before deregulation, Imatran Voima (IVO), the state-owned electricity utility company, was the only company permitted to import electricity. Recently, however, Teollisuuden Voima (TVO), owned by four privately-owned utility companies and Nokia, received permission from the government to import 100MW of Soviet electricity during 1989-93 and from then on, until 2004, 300MW per year.

In the forestry sector, Osmuuskunta Tuuslimäki (OT), owned by Finland's leading timber groups, has asked the government for permission to import a 20,000 tonne consignment of heavy fuel oil from a Swiss trading company. OT had tried unsuccessfully on an earlier occasion, in 1981, to break the foreign oil import monopoly of Neste, the state-owned oil and chemicals group. It was not until 1987, however, that permission was finally granted to import and trade in heavy fuel oil, light fuel oil and diesel from the USSR (and third countries), though not to OT but to Suomen Petrolit (SP), a Finnish subsidiary of the Russian oil company Soyuzneftexport. In reality Neste's monopoly is as strong as ever.

Since Finnish-Soviet semi-barter trade is regulated by a clearing-house scheme, SP's main job has been to import "expensive" oil from the USSR for export to countries like East Germany and Poland. This measure has helped to lower the trade deficit in the past two years within the clearing-house scheme when it was clearly in Finland's favour.

Agriculture is an altogether more difficult task of the OFC, according to Mr Purasjoki, has been to convince the public that rapid deregulation and the smashing of cartels does not lead automatically to lower prices.

Another huge task for the OFC has been to break the tight monopoly of the powerful wholesale-retail chains: Kesko, Tuko, SOK and EKA. Mr Purasjoki says that a big personal

challenge will be to break their market stranglehold within five years. He said that the rest of the industry had not been so critical of the oligopoly only because they were totally dependent on it for goods and supplies.

"I believe that these companies have become lazy and are unprepared for competition. Their idea of competing is to control market shares and that type of competition does not lead to anything," he said.

Enrique Tessieri

Enrique Tessieri

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FINLAND 5

VALTION METALLI

An eventful chapter

VALTION Metall (Valmet), the state-owned Finnish engineering and paper machinery group, breathed a sigh of relief last autumn when it saw its main partner Wärtsilä go through the pain and agony of giving up its marine division, one of Europe's leading shipbuilding companies.

For it was only three years ago that Valmet and Wärtsilä Corporation decided to set up two new shipbuilding and paper machinery joint ventures. Wärtsilä held a 70 per cent stake in Valmet's 90 per cent holding, while in the paper machinery entity Valmet took a 60 per cent stake against Wärtsilä's 40 per cent holding.

The fortunes of the two new companies have varied enormously: last October the shipping venture, Wärtsilä Marine, ended up filing for bankruptcy while the paper entity, Valmet Paper Machinery, continues to turn in a profit. Wärtsilä Marine's collapse was mainly due to external factors such as high European Community subsidies to member states' shipping yards and the worsening Finnish economy.

In 1988 Valmet's overall paper machinery operations accounted for 23 per cent of the world market with the West German Voith and Beloit Corporation of the US jointly controlling 20 per cent apiece.

Since the founding of the company, net sales for Valmet Paper Machinery have grown from Fm3.57bn in 1987 to Fm4.40bn in 1988 and are expected to reach some Fm5.5bn in 1989, or roughly 50 per cent of the group's total sales. A large proportion of the division's net profits goes into research and development.

This summer, Valmet Paper

Machinery's orders to 1991 stood at Fm7.5bn and included more than 30 paper machines destined for North America, Europe, Asia and the home market itself. Valmet officials hint that although orders are slightly high at the moment, they do not expect this to impose undue strains on the company.

Mr Matti Kankaanpää, Valmet's chief executive, spent some six years with Beloit Corporation, one of Valmet's main rivals. An engineer by training, he once wrote a thesis on machines capable of devolving between 15 hectares and 20 hectares of forest a day and

The group is looking to secure a competitive niche in the market

converting it into about 800 tonnes of paper. Since Mr Kankaanpää took over the helm of Valmet in 1980, he has had to overcome several challenges. These focus mainly on how to lower the group's overheads while increasing profitability as well as finding a competitive niche for his company.

"We don't have anything in the pulp sector, but we have paper machines... it has been our strategy to focus on the forestry industry since the paper and pulp sector offers good possibilities for us in the future," he explained.

Valmet's chief executive discounts the likelihood of one of the world's three paper machinery giants falling victim to the increased competition forecast for the 1990s.

"I believe that each one of us has geographically strong

areas. With respect to the smaller paper machinery companies, there may be pressure on them to merge or find specific niche products. However, I'm not saying that they cannot also survive and make a profit in the future," he added.

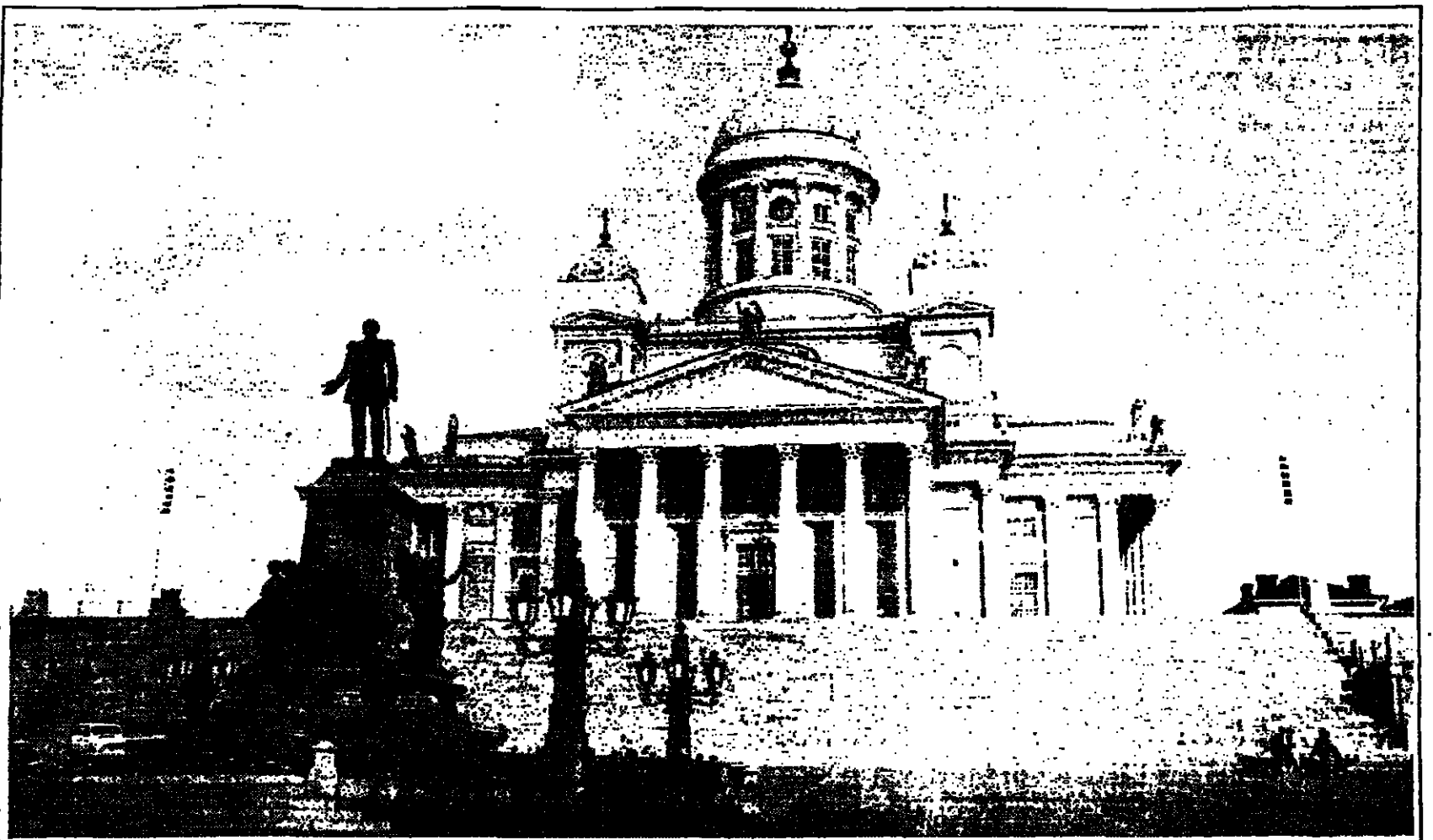
After several good years on the back of exceptionally high annual growth rates of between 4 per cent and 5 per cent in the global forestry industry, Mr Kankaanpää believes that there will be a turnaround in 1990.

Valmet has been strongly consolidating and divesting its operations in recent years to focus its activities on the forestry-based industry. Seventy per cent of its products, which include harvesters, log handling equipment and a large automation division, are earmarked for this industrial sector.

Mr Kankaanpää places great hope in the next decade on the group's tractors and logging division, whose sales will increase thanks to increasingly mechanised logging operations. While Scandinavia continues to be an important market, most of the group's tractor operations are concentrated in Brazil, where it turned out some 29,900 tractors in 1988 and commands a 28.3 per cent share of that country's market.

Valmet also has plans to expand its tractor operations in Portugal in the next decade and take a chunk of the market in the Iberian Peninsula. Mr Kankaanpää believes that the group's tractor division should not only continue to be a strong player in South America in the 1990s, but also in the southern EC region as well as in Scandinavia.

Enrique Tessler



Helsinki's Senate Square with the city's most famous cathedral, known as the Great Church, and a statue of the Russian emperor Alexander II in the foreground

OUTOKUMPU

Predator reaps reward

SOMEONE once inferred humorously that the future of Outokumpu, a state-owned base metals group, was so bright that it would have to wear sunglasses. Mr Ossi Virolainen, the group's deputy vice-president, admits that Outokumpu is today stronger than ever and attributes this achievement to clear goals and strategic investments.

The group's profitability has also been spurred by global copper, zinc and nickel prices, as well as by a strong demand for stainless steel. Global consumption for stainless steel has grown during the past 10 years at a rate of 5 per cent, and increased by 13 per cent in 1988.

"We have achieved a lot in the past 12 months. In copper last year we concluded a 7 per cent purchase agreement with the La Escondida mine in Chile. One of our major acquisitions this year was the Australian company Forrestania, where we gained a 55 per cent stake and secured our future nickel needs," Mr Virolainen said.

Last month the group acquired an even bigger stake in the Chilean copper industry by taking control of the Zaldivar copper deposit, located 150 km south of the northern city of Antofagasta. Preliminary studies at the copper deposit indicate that there may be 60m tonnes of ore averaging 1.5 per cent copper content.

Outokumpu also acquired a bigger foothold in the European semi-fabricated copper market last summer by raising its share in Iberica del Cobre (Ibercobre), Spain's leading copper alloy semi-products manufacturer, from 21 per cent to 75.5 per cent. The Ibercobre acquisition turns Outokumpu Copper, whose net sales accounted for 24.9 per cent of the group total at Fm3.22bn in 1988, into Europe's second largest semi-fabricated copper producer.

Mr Virolainen makes no effort to disguise Outokumpu's long-range plans to increase its 3 per cent stake of the stainless steel market and become a global leader in this sector in the next decade.

The group has already taken some concrete steps in this direction. This year, it decided to invest Fm550m in its already highly integrated stainless steel plant in the northern city of Tornio. This will raise the Tornio plant's annual output of cold-rolled products from 150,000 tonnes to 250,000 tonnes by early next year.

Whether or not new acquisitions are in the pipeline for the new year, the company has, in the meantime, been actively

involved in developing the enormous mining wealth of the Soviet Kola Peninsula. Last summer, Outokumpu finished building a concentration unit at the sizeable Apatite City, about 400 km south of Murmansk. The project took three years to complete and has raised phenomenal production in the USSR by 30 per cent, according to Outokumpu officials, who also have plans to build and upgrade a second concentration unit at the mill.

Although Outokumpu has already secured its needs in nickel mainly through its Forrestania acquisition, the group has also signed a letter of intent with an option to form a

joint venture with the Soviet Kola-based company Petzunia Nickel Combine (PNC) in Zapoljarny, some 200 km west of Murmansk.

If the project materialises, Outokumpu will also help build a nickel mine that will supply the PNC mill, whose annual capacity would be between 6m tonnes and 7m tonnes of ore.

The Kola Peninsula project is still an open question. "Negotiations still need to be conducted with the Soviets. Even if the area offers good possibilities for us, at least for now, the most important aspect of the so-called Kola project accord is to get sulphur emissions lowered from the Soviet side," Mr Virolainen explained.

Not only have mining plants caused great environmental harm in the Kola Peninsula, but sulphur emissions are also threatening to devastate large areas of forest in the northern

Finnish region of Lapland. The poor economic situation in the USSR and the restructuring presently under way due to perestroika, have not prompted Finnish companies to propose joint ventures in the Kola Peninsula with Soviet companies. Although the Soviet market offers considerable future potential for Outokumpu, today it accounts for only 4 per cent of the group's world-wide operations. In 1988, 60.3 per cent of the group's total net sales of Fm9.7bn came from EC and EFTA markets.

Mr Virolainen sees the market in the next decade becoming increasingly competitive. According to him, there will only be five companies involved in the European semi-fabricated copper market and 10 world-wide. "Apart from us, the Japanese, South Korean, American and Italians will be strong in this field."

Enrique Tessler



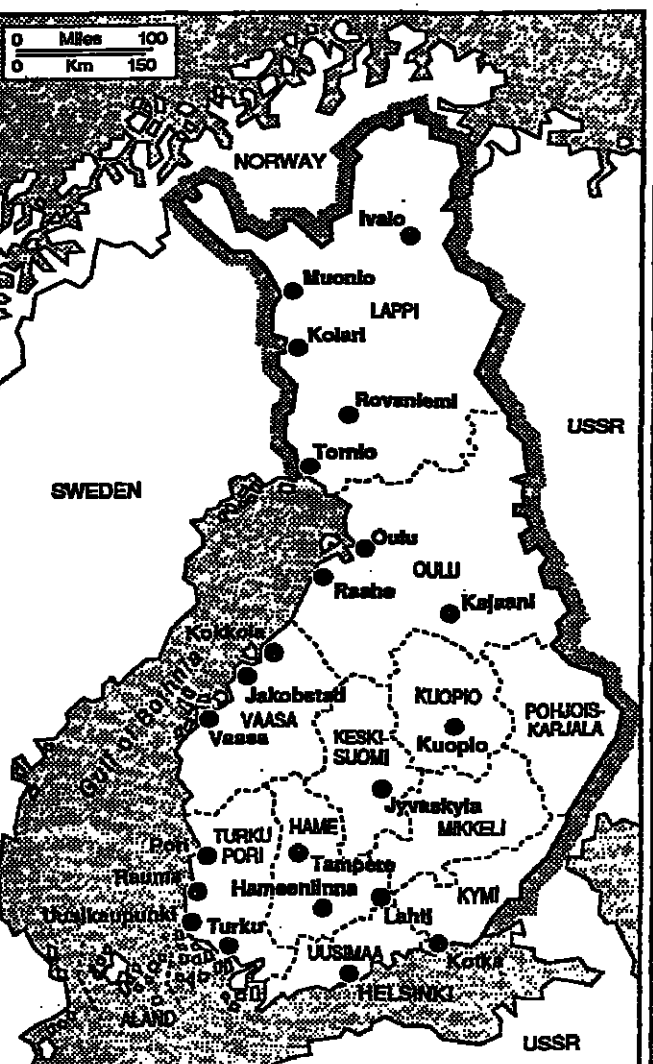
Helsinki's banking quarter: the lifting of regulations on the financial markets has fuelled inflation

KEY FACTS

Area: 338,000 km²
Prime Minister: Harri Holkkari
Population: 4,932,000
Population growth: 0.3% (88); 0.3% (87)
Urban pop as % of total: 60% (87)
Average other high income economies: 77%
Current account balance: \$-2,998m (88); \$-1,948m (87); \$-731m (86)
Merchandise exports: \$21,222m (88); \$19,028m (87); \$16,006m (86)
Merchandise imports: \$20,666m (88); \$17,702m (87); \$14,363m (86)
Trade balance: \$1,232m (88); \$1,323m (87); \$1,642m (86)
GDP growth (1985 prices): 3.5% (88); 2.5% (87); 1978-88 avg 3.4%
GDP per capita: \$18,137 (87, market prices)
Current account deficit as %

of GDP: 2.2% (87)
GDP per capita: \$12,838 (87, using PPPs)
Inflation: 5.1% (88); 3.7% (87); 1977-88 avg 7.4%
Total reserves (net gold): \$5,889.2m (88); \$6,417.5m (87)
Principal exports: industry products 33.2%; metals and engineering 31.0%; chemicals 9.0%; wood industry prod 8.2%
Main export markets: USSR 14.3%; Sweden 14.1%; UK 13.0%; US 5.8%; W.Germany 10.8%; EFTA 20.5%; CMEA 16.6%; EC 44.2%
Principal imports: raw materials 49.7%; consumer goods 23.1%; investment goods 18.4%; fuels 8.1%
Main import markets: W.Germany 18.9%; Sweden 13.3%; UK 6.8%

USSR 12.1%; US 6.3%
EFTA 18.9%; CMEA 14.7%; EC 43.5%
Currency: 1 markka (FM) = 100 penni
1988 average exchange rates: \$ = Fm4.19; £ = Fm7.47
Current exchange rates (Dec 88): \$ = Fm4.15; £ = 6.60



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Tel: 01-831 0292
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FT UNIT TRUST INFORMATION SERVICE

For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Trust Managers Ltd

Table listing various unit trusts under Abbey Unit Trust Managers Ltd, including names, dates, and prices.

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GUIDE TO UNIT TRUST PRICING
NET ASSETS
UNIT PRICE
UNIT TRUST PRICING
UNIT TRUST PRICING
UNIT TRUST PRICING

Handwritten note in Arabic script: "هكذا صحت القبول"

FT UNIT TRUST INFORMATION SERVICE

For Current Unit Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 30p per minute peak and 25p off peak, inc VAT

Main table containing unit trust information with columns for Unit Name, Unit Price, and Yield. Includes sub-sections for 'OTHER UK UNIT TRUSTS' and 'INSURANCES'.

INSURANCES section listing various insurance policies and their details.

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

For Current Unit Trust Prices on any telephone ring direct-0638 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Main table containing unit trust information, organized into columns for various categories like 'Domestic', 'Overseas', 'Guernsey', 'Jersey', 'Luxembourg', 'Offshore and Overseas', and 'Management Services'. Each entry includes a company name, unit name, and numerical values.

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

GUERNSEY (SIB RECOGNISED)

LUKEMBURG (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

Handwritten note in Arabic script: "معلومات إضافية"

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

Table of FT Unit Trust Information Service listing various investment funds, their performance, and details.

BRITISH FUNDS

Table of British Funds including categories like 'Short' (lives up to five years), 'Five to Fifteen Years', 'Over Fifteen Years', 'Index-Linked', 'INT. BANK AND O'SEAS', 'CORPORATION LOANS', and 'COMMONWEALTH & AFRICAN LOANS'.

LOANS

Table of Loans including Building Societies, Public Board and Ind., and FOREIGN BONDS & RAILS.

AMERICANS

Table of American investment funds and services, including various international and domestic fund listings.

Money Market Trust Funds

Table of Money Market Trust Funds listing various fund names and their details.

Money Market Bank Accounts

Table of Money Market Bank Accounts listing various bank services and interest rates.

NOTES: General note regarding interest rates and fund performance metrics.

LONDON SHARE SERVICE

AMERICANS - Contd

Table listing American stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like American Express, American International Group, and American Overseas Corp.

CANADIANS

Table listing Canadian stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like Canadian National, Canadian Pacific, and Canadian Tire.

BANKS, HP & LEASING

Table listing bank and leasing stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like Bank of Montreal, Bank of Toronto, and Finance Trust.

BEERS, WINES & SPIRITS

Table listing beer, wine, and spirit stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like Carlsberg, Heineken, and J & J.

BUILDING, TIMBER, ROADS

Table listing building, timber, and road stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like Bovis Lend Lease, Bovis Lend Lease Group, and Bovis Lend Lease Group.

BUILDING, TIMBER, ROADS - Contd

Continuation of Building, Timber, and Roads stocks table.

CHEMICALS, PLASTICS

Table listing chemical and plastic stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like ICI, ICI Chemicals, and ICI Chemicals.

DRAPERY AND STORES

Table listing drapery and store stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like Debenhams, Debenhams Group, and Debenhams Group.

BEERS, WINES & SPIRITS

Continuation of Beer, Wine, and Spirit stocks table.

BUILDING, TIMBER, ROADS

Continuation of Building, Timber, and Road stocks table.

DRAPERY AND STORES - Contd

Continuation of Drapery and Stores stocks table.

ELECTRICALS

Table listing electrical stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like British Telecom, British Telecom Group, and British Telecom Group.

DRAPERY AND STORES

Continuation of Drapery and Stores stocks table.

BEERS, WINES & SPIRITS

Continuation of Beer, Wine, and Spirit stocks table.

BUILDING, TIMBER, ROADS

Continuation of Building, Timber, and Road stocks table.

ENGINEERING - Contd

Continuation of Engineering stocks table.

FOOD, GROCERIES, ETC

Table listing food, grocery, and other stocks with columns for Stock, Price, Bid, Ask, and Dividend. Includes companies like Asda, Asda Group, and Asda Group.

DRAPERY AND STORES

Continuation of Drapery and Stores stocks table.

BEERS, WINES & SPIRITS

Continuation of Beer, Wine, and Spirit stocks table.

BUILDING, TIMBER, ROADS

Continuation of Building, Timber, and Road stocks table.

INDUSTRIALS (Misc.) - Contd

Continuation of Industrial (Misc.) stocks table.

INDUSTRIALS (Misc.) - Contd

Continuation of Industrial (Misc.) stocks table.

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INDUSTRIALS (Misc.) - Contd

Continuation of Industrial (Misc.) stocks table.

INDUSTRIALS (Misc.) - Contd

Continuation of Industrial (Misc.) stocks table.

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LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct-0636 43 + four digit code (listed below). Calls charged at 35p per minute peak and 25p off peak, inc VAT

LEISURE

Table of Leisure stocks including titles like 'The Leisure Group', 'The Leisure Group PLC', etc.

PAPER, PRINTING, ADVERTISING - Contd

Table of Paper, Printing, Advertising stocks including titles like 'The Times', 'The Daily Telegraph', etc.

TRANSPORT

Table of Transport stocks including titles like 'British Airways', 'British Airports Authority', etc.

TRUSTS, FINANCE, LAND - Contd

Table of Trusts, Finance, Land stocks including titles like 'The National Westminster Bank', 'The Royal Bank of Scotland', etc.

OIL AND GAS - Contd

Table of Oil and Gas stocks including titles like 'BP', 'Shell', 'British Petroleum', etc.

MINES - Contd

Table of Mines stocks including titles like 'Anglo American', 'De Beers', 'Gold Fields', etc.

PROPERTY

Table of Property stocks including titles like 'The Land Securities Group', 'The British Land Company', etc.

TRUSTS, FINANCE, LAND

Table of Trusts, Finance, Land stocks including titles like 'The National Westminster Bank', 'The Royal Bank of Scotland', etc.

MOTORS, AIRCRAFT TRADES

Table of Motors, Aircraft Trades stocks including titles like 'British Aerospace', 'Rolls Royce', etc.

Commercial Vehicles

Table of Commercial Vehicles stocks including titles like 'DaimlerChrysler', 'Ford', etc.

Investment Trusts

Table of Investment Trusts including titles like 'The Fidelity Investment Trust', 'The British Investment Trust', etc.

Finance, Land, etc

Table of Finance, Land, etc stocks including titles like 'The National Westminster Bank', 'The Royal Bank of Scotland', etc.

PLANTATIONS

Table of Plantations stocks including titles like 'The United Plantations Group', 'The Rubber Plantations', etc.

OVERSEAS TRADERS

Table of Overseas Traders including titles like 'The Overseas Traders', 'The International Traders', etc.

COMPANIES

Table of Companies including titles like 'The British Airways', 'The British Airports Authority', etc.

Garages and Distributors

Table of Garages and Distributors including titles like 'The British Motor Group', 'The British Motor Distributors', etc.

SHOES AND LEATHER

Table of Shoes and Leather including titles like 'The British Shoe Group', 'The British Leather Group', etc.

FINANCE, LAND, ETC

Table of Finance, Land, etc stocks including titles like 'The National Westminster Bank', 'The Royal Bank of Scotland', etc.

PLANTATIONS

Table of Plantations stocks including titles like 'The United Plantations Group', 'The Rubber Plantations', etc.

OVERSEAS TRADERS

Table of Overseas Traders including titles like 'The Overseas Traders', 'The International Traders', etc.

NEWSPAPERS, PUBLISHERS

Table of Newspapers, Publishers including titles like 'The Times', 'The Daily Telegraph', 'The Financial Times', etc.

PAPER, PRINTING, ADVERTISING

Table of Paper, Printing, Advertising stocks including titles like 'The Times', 'The Daily Telegraph', etc.

SHOES AND LEATHER

Table of Shoes and Leather including titles like 'The British Shoe Group', 'The British Leather Group', etc.

SOUTH AFRICANS

Table of South Africans including titles like 'The Anglo American', 'The De Beers', 'The Gold Fields', etc.

TEXTILES

Table of Textiles including titles like 'The British Textile Group', 'The British Cotton Group', etc.

TOBACCO

Table of Tobacco including titles like 'The British Tobacco Group', 'The British Cigarette Group', etc.

REGIONAL & IRISH STOCKS

Table of Regional & Irish Stocks including titles like 'The British Regional Group', 'The Irish Stock Group', etc.

TRADITIONAL OPTIONS

Table of Traditional Options including titles like 'The British Options Group', 'The Irish Options Group', etc.

PROPERTY

Table of Property stocks including titles like 'The Land Securities Group', 'The British Land Company', etc.

INDUSTRIALS

Table of Industrials including titles like 'The British Industrial Group', 'The British Manufacturing Group', etc.

MINES

Table of Mines stocks including titles like 'Anglo American', 'De Beers', 'Gold Fields', etc.

PROPERTY

Table of Property stocks including titles like 'The Land Securities Group', 'The British Land Company', etc.

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: A, Alpha; B, Beta; Gamma.

CURRENCIES, MONEY AND CAPITAL MARKETS

POUND SPOT - FORWARD AGAINST THE POUND

Table with columns: Dec 15, Day's spread, Close, One month, % p.a., Three months, % p.a. Rows include US, West Germany, France, Italy, Spain, Portugal, Greece, UK, Ireland, Belgium, Netherlands, Luxembourg, Denmark, Norway, Sweden, Switzerland, Austria, New Zealand, Australia, Canada, Japan, South Africa, Hong Kong, Singapore, Malaysia, Thailand, Philippines, Indonesia, Taiwan, South Korea, India, Pakistan, Bangladesh, Sri Lanka, Ceylon, Mauritius, Seychelles, Maldives, Brunei, East Timor, Cambodia, Laos, Vietnam, Myanmar, Thailand, Philippines, Indonesia, Taiwan, South Korea, India, Pakistan, Bangladesh, Sri Lanka, Ceylon, Mauritius, Seychelles, Maldives, Brunei, East Timor, Cambodia, Laos, Vietnam, Myanmar.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Table with columns: Dec 15, Day's spread, Close, One month, % p.a., Three months, % p.a. Rows include UK, West Germany, France, Italy, Spain, Portugal, Greece, UK, Ireland, Belgium, Netherlands, Luxembourg, Denmark, Norway, Sweden, Switzerland, Austria, New Zealand, Australia, Canada, Japan, South Africa, Hong Kong, Singapore, Malaysia, Thailand, Philippines, Indonesia, Taiwan, South Korea, India, Pakistan, Bangladesh, Sri Lanka, Ceylon, Mauritius, Seychelles, Maldives, Brunei, East Timor, Cambodia, Laos, Vietnam, Myanmar.

MONEY MARKETS

Dealers look for a much calmer week

Following the excitement of last week, when the D-Mark at one stage pushed the US dollar to its lowest level since May 1988, the currency markets are likely to be a calmer place as Christmas approaches.

Mr Anthony Thomas, senior economist at Kleinwort Benson, said: "Christmas is always a tricky time of year for the Fed to influence market rates. So while I think the Fed will ease, it's likely to be done cautiously next year. After all, it's still walking a tightrope between inflation and recession."

One major unknown is the impact that the political upheavals in Eastern Europe will have on the D-Mark. The action last week in the currency markets was dominated by the West German unit, which put the dollar on the defensive.

But by the weekend dealers said that the D-Mark had risen too far, too quickly, though few of them appeared to be sellers of the West German unit. Instead, the D-Mark seems set for a week of consolidation, with the uncertainty surrounding Eastern Europe keeping it underpinned.

So with the market preoccupied with Christmas than the dollar, observers predict currencies holding in a narrow range. Mr Walton said if the dollar held above DMI.72, it should trade this week between that level and DMI.75, while Mr Thomas predicted a range of DMI.70 to DMI.74.

UK clearing bank base lending rate

15 per cent from October 5

STERLING INDEX

Table with columns: Dec 15, Previous. Rows include 3.00, 3.50, 4.00, 4.50, 5.00, 5.50, 6.00, 6.50, 7.00, 7.50, 8.00, 8.50, 9.00, 9.50, 10.00, 10.50, 11.00, 11.50, 12.00, 12.50, 13.00, 13.50, 14.00, 14.50, 15.00, 15.50, 16.00, 16.50, 17.00, 17.50, 18.00, 18.50, 19.00, 19.50, 20.00, 20.50, 21.00, 21.50, 22.00, 22.50, 23.00, 23.50, 24.00, 24.50, 25.00, 25.50, 26.00, 26.50, 27.00, 27.50, 28.00, 28.50, 29.00, 29.50, 30.00, 30.50, 31.00, 31.50, 32.00, 32.50, 33.00, 33.50, 34.00, 34.50, 35.00, 35.50, 36.00, 36.50, 37.00, 37.50, 38.00, 38.50, 39.00, 39.50, 40.00, 40.50, 41.00, 41.50, 42.00, 42.50, 43.00, 43.50, 44.00, 44.50, 45.00, 45.50, 46.00, 46.50, 47.00, 47.50, 48.00, 48.50, 49.00, 49.50, 50.00, 50.50, 51.00, 51.50, 52.00, 52.50, 53.00, 53.50, 54.00, 54.50, 55.00, 55.50, 56.00, 56.50, 57.00, 57.50, 58.00, 58.50, 59.00, 59.50, 60.00, 60.50, 61.00, 61.50, 62.00, 62.50, 63.00, 63.50, 64.00, 64.50, 65.00, 65.50, 66.00, 66.50, 67.00, 67.50, 68.00, 68.50, 69.00, 69.50, 70.00, 70.50, 71.00, 71.50, 72.00, 72.50, 73.00, 73.50, 74.00, 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4pm p rices December 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table containing stock prices, organized into columns with headers like '12 Month High', 'Low', 'Open', 'Close', 'Bid', 'Ask', 'Volume', and 'Change'. It lists numerous individual stocks and their corresponding market data.

Advertisement for SAMSUNG Electronics featuring a cassette player and the text 'Digital, Dolby, and more... Video Audio Home Appliances SAMSUNG Electronics'.

Continued on Page 39

Handwritten Arabic text: هكذا استعمل

NYSE COMPOSITE PRICES

Main table for NYSE Composite Prices, listing various stocks with columns for High, Low, and Change.

NASDAQ NATIONAL MARKET

4pm prices December 15

Main table for NASDAQ National Market, listing various stocks with columns for High, Low, and Last Change.

Some figures are unaudited... and are subject to audit... and are subject to audit...

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The Business Column

Back to basics: combating complexity

A COMMENTATOR risks being branded as barmy if he claims that the business world of the 1980s is ending as it began. Just look about you at the landscape, he'll be told, only a blind person could fail to notice the drastic changes. Many rules of the game have certainly been transformed by the vicious intensification of global competition, the onset of widespread deregulation, the lamentable creation of a single European market, and more besides.

But in another sense the claim is quite correct. For company after company is still divesting the diversifications it made in the 1960s and 1970s — even quite successful ones — and is going "back to basics." Daimler-Benz and other exceptions to this trend are just that — exceptions.

In the past fortnight Chrysler has finally bowed to the inevitable and joined the herd, putting its aerospace and defence business up for sale in order to get back to its car manufacturing core. Last week Volvo appeared to take the first step along a similar road, by selling-out majority control of its troublesome pharmaceuticals and food business to a Swedish state holding company in exchange for a purely financial stake in the latter.

Paradoxical tendency

Throughout the decade there has been a paradoxical, if understandable, tendency in the wake of such divestments for more attention to be focused on the other side of the equation: the health or otherwise of the remaining "core."

Thus Volvo's announcement dealt entirely with the benefits of the deal for its semi-divested interests, and talked not at all about the potential benefits for its core transportation businesses — in terms of greater top management attention and (presumably) more focused financial muscle.

Yet such focusing of head office attention is one of the main reasons, along with financial strains, for the flood of divestments which have taken place during the 1980s.

One after another, many parent companies have realised three things: that each of their businesses faces an unprecedented management challenge, thanks to the strategic and organisational complexities of competing against global rivals; that the nature of the challenges varies widely across types of business; and that if this creates too wide a variance in the "parenting" role required of head office, the parent must prune its portfolio.

This dilemma was expressed with unusual force earlier this month by Professor John Stoford of the London Business School, a long-standing expert on multinationals. The challenge of managing change within individual businesses during the 1990s would be immense, he told a Strategic Planning Society conference.

Global yet national

Among a daunting list of other strategic and organisational requirements, he argued that companies needed to learn how to reap the supposedly contradictory benefits of differentiation and low cost. They had to get the best out of co-ordination and decentralisation at the same time, in order to secure global integration while preserving national focus.

They also needed to organise themselves to work in cross-functional teams, yet make some functions more international than others. They needed to decide which activities to continue in-house, and which to subcontract through much closer relationships with suppliers. And they needed to learn how to handle alliances.

At the corporate level, things were even worse, said Stoford. Instead of having a single strategic formula and a north Atlantic axis, like far too many British companies, successful global competitors needed both strategic variety and geographic spread.

For a parent company to try, in addition to all this, to maintain a variety of businesses was "just not feasible," Stoford warned.

Too true. For Chrysler, Volvo, and hordes of other companies, the burning question has become how to limit complexity to something manageable. Hence the decade of divestment.

Christopher Lorenz

At the regular press conference following the biennial US-Japan financial discussions in Washington last month, Makoto Utsumi, Japan's Vice Minister of Finance for International Affairs, suddenly turned philosophical.

Of course there were tensions between the US Treasury and the Japanese Ministry of Finance on several points, he said, but that was perhaps a good thing. "If we became too familiar, we might get too dependent on each other. I believe it is necessary to maintain certain amount of tension in order to bring about progress."

Utsumi's listeners could be forgiven if they were so surprised at a Japanese official expressing any personal views at all that they missed the irony of what he was saying. In the canon of Japanese organisational behaviour, tension or friction is to be avoided if at all possible. The pursuit of harmony is the ultimate good, and mutual dependence is promoted as a way of making sure that people do not step out of line. Utsumi was thus advocating a very un-Japanese type of relationship.

Utsumi is a rare creature in Japanese officialdom, someone who has not been overwhelmed by the organisation's demands and who pursues his ideas and his life as he sees fit. He does not, for example, play golf, which has become an essential ritual in Japanese business life. He prefers to go hiking in the mountains, either alone or with colleagues. And he is devoted to Zen Buddhism.

On the surface, Utsumi's career has been conventional enough. He entered the Finance Ministry with a Tokyo University law degree and marched methodically up the ladder to his current post. But along the way, he did some unusual things, such as studying for a year in Paris, working for four years in the Japanese embassy in Brussels and spending three years in Washington in the early 1980s, all of which, with the Zen, enabled him to be as comfortable with Europeans and Americans, in fluent French or English, as with fellow Japanese.

There is now a sizeable contingent of Japanese civil servants and business leaders who have lived abroad for long periods and have mastered western languages and customs. But most retain a certain reserve; with Utsumi, one feels a rare transparency of opinion and enthusiasm for ideas.

"It is said in Japan that personal relations are very important, but I feel exactly the same is true in dealing with foreign partners. I felt it very strongly when I stayed in the US. Human nature is the same fundamentally," he says.

Utsumi holds one of the most important and delicate positions in the Japanese Government. He is the man who heads Japan's effort to co-ordinate economic policy with the other leading industrialised countries, including foreign

THE MONDAY INTERVIEW

A believer in the value of tension

Makoto Utsumi, Japan's Vice Minister of Finance for International Affairs, talks to Ian Rodger

exchange rate management and Third World debt. He believes the financial relationship between the Finance Ministry and the US Treasury has become the core of the relationship between the US and Japan, in effect displacing the strategic ties. Some Japanese officials are impatient that despite being the country with the biggest capital surplus, Japan still has to defer to US leadership on international issues, but Utsumi is not one of them.

"No, it is not awkward. Through experience, I am convinced that the US is and should be the lead manager on

PERSONAL FILE

1928: Born Tokyo; law graduate Tokyo University
1957: Joined Finance Ministry
1963: Secretary at Brussels embassy
1967-68: Finance Ministry posts including deputy director minister's secretariat and director planning and legal division
1983: Minister at Washington embassy
1986: Director-general, Finance Ministry's international financial bureau
1989: Vice Minister of Finance for International Affairs

things — for example, the Latin American debt issue — and we are, so to speak, co-manager. We do not have the ability to lead on international issues yet.

"For example, if you take the sum of all economic, political and social information about Latin America, and you measure the degree of US possession of that information at 100, maybe what we have is 10, or less, and that is true of our knowledge of most of the world. In the case of Asia, maybe it is a bit different. "Also, on the Brady plan for solving the Latin American debt problem, we had to overcome objections in some European countries. This only became possible because of a strong lead from the US. Japan alone could not have achieved it. This is a fact of life and we recognise it. But I also think that without our co-operation, it would have been very difficult to get the plan going." Tensions nevertheless arise.

The question of Japan's representation in the International Monetary Fund (it is now ranked fifth behind the US, the UK, West Germany and France in voting power) has become particularly urgent, he says.

"We are concerned because there is a growing sentiment among Japanese people, including politicians, that Japan is asked only for money. Other governments say we are not yet in a position to have a voice in international affairs. But it will be increasingly difficult for us to have the approval of parliament — especially the Liberal Democratic Party has lost its majority in the Upper House — for any co-operation in relation to multilateral institutions without having an adequate position in the IMF."

The IMF issue apart, Utsumi does not think that the relative roles of the US and Japan in international financial affairs are going to change very quickly. "There is no revolutionary change in these things. It is always evolutionary." Internally, however, things move faster. Utsumi is particularly proud of the evolution in attitudes toward foreign countries in his own ministry in the past few years.

"We have much closer contacts with the US, UK, French, German, Italian and Canadian Governments on a bilateral basis than we used to. When we began the yen-dollar talks in 1983, I was in the US. At that time, Finance Ministry officials' reaction to the requests of foreign countries was first to seek a pretext for doing nothing and then to find ways to justify themselves. Now it is completely changed. First, they listen. Then they think whether or not it is possible. If it is impossible, they think carefully about the reason. This change of mentality is very remarkable."

As one of the few Japanese (and even fewer American) officials who have been involved from the beginning in the effort by the Group of Seven leading industrial countries to co-ordinate economic policies, Utsumi takes a long view of that process, and is undisturbed by the weakening of the yen this year.

The other focus of the international division of the Ministry of Finance has been opening Japan's capital markets to foreign institutions and invest-

tors. Utsumi totally supports that. "Japan is now growing to such an extent that we are inevitably one of the global players. If we have different rules, it will be increasingly difficult to be understood."

He acknowledges that the liberalisation process is not necessarily working out to the advantage of some foreign financial institutions, and he is grateful that foreign governments remained committed to the process. "Our counterparts in each of these countries are rather logical, and are not thinking only of the interests of special groups. Sometimes, they are astonishingly logical."

Many people would say that the Japanese Government is less logical and more pragmatic. That is to say, regardless of logic, it protects its special interest groups. "Perhaps," Utsumi says with a smile.

Having observed the government process in various countries, he is impressed by the huge differences in the way things work, but analyses them strictly from the point of view of someone who wants to get things done. "In Japan, the adjustment of interests in the nation is the task of the Government — that is, the civil service, including ministers. In the case of the US, all interest groups converge on the Congress rather than the Administration, so the adjustment of conflicting interests is mainly the task of the Congress."

Japanese economic policy-making also seems to differ from that in many other countries in that it lacks much dogmatic content. Utsumi shares that pragmatic approach. "Forecasts by economists are based fundamentally on past data. But something always happens which did not happen in the past, so maybe I believe to the extent of 60 per cent in the application of theories, but 40 per cent of me is sceptical."



Schooled in being endlessly cheerful

ON A TABLE in Mr Utsumi's spacious office in Tokyo's Ministry of Finance there is a framed photograph of two men in Buddhist monks' robes grinning broadly at the camera. One of them is the Ozeki Nangaku, who was the abbot at the Daitoku temple in Kyoto for several decades until his death last year. The other is Utsumi himself, and he proudly tells visitors that he is still a half priest of the Zen sect.

Utsumi's devotion to Zen dates from his university days when he first visited Daitoku temple, met the abbot and

pleaded to be introduced to the rigours of zazen meditation. The abbot refused and suggested instead that he come to Kyoto more often. He did so, but despite long sessions together, they never got round to zazen.

"The abbot gave me instead an education in being endlessly cheerful and learning to exploit the human being's potential to enjoy everything while acknowledging his weaknesses and foolishness and earthly desires," Utsumi once wrote of those days.

Utsumi says he ultimately understood why zazen had

been ruled out. "A person who wants to do meditation while young would probably become rigid," he says. "The abbot probably realised that I was going to be too serious a fellow, so he gave me a tanku education."

Tanku is the Japanese word for badger. Japanese people believe that badgers have mischievous spirits and that sometimes this spirit inhabits a person, perhaps a pretty girl who then makes a fool of an over-ambitious man. Thus, people dealing with Utsumi should perhaps beware of the tanku.

Private rights and the public's need to know

IT was ironic that on the day when the Press Council announced its Code of Practice for editors and journalists, which proclaimed the journalistic obligation to protect confidential sources of information and also restated the individual's right to privacy, the Court of Appeal said its service to the former and interpreted eccentrically the concept of privacy.

To recapitulate the tale of Mr William Goodwin, the young trainee journalist who has been found to be in contempt for refusing to obey a court order to disclose his source of confidential information: the courts have put a blanket on much of the background information to the case. According to the Master of the Rolls, "the plaintiffs (which are two interconnected private companies) are a, and perhaps the leader in their very important field, which I deliberately do not identify, with national and international customers and competitors. They are faced with a situation which is in part the result of their own success. They have reached a point at which they have to refinance and expand or go under with the loss not only of money, but of a significant number of jobs. They are continuing with their refinancing discussions because they are a, and perhaps the leader in their very important field, which I deliberately do not identify, with national and international customers and competitors. They are faced with a situation which is in part the result of their own success. They have reached a point at which they have to refinance and expand or go under with the loss not only of money, but of a significant number of jobs. They are continuing with their refinancing discussions because they are a, and perhaps the leader in their very important field, which I deliberately do not identify, with national and international customers and competitors. They are faced with a situation which is in part the result of their own success. They have reached a point at which they have to refinance and expand or go under with the loss not only of money, but of a significant number of jobs. 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